Global Business Power Corporation and Subsidiaries

Consolidated Financial Statements
December 31, 2019 and 2018

and

Independent Auditor's Report

A member firm of Ernst & Young Global Limited

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

INDEPENDENT AUDITOR'S REPORT

The Board of Directors and Stockholders
Global Business Power Corporation

Opinion

We have audited the consolidated financial statements of Global Business Power Corporation and its subsidiaries (the Group), which comprise the consolidated statements of financial position as at December 31, 2019 and 2018, and the consolidated statements of comprehensive income, consolidated statements of changes in equity and consolidated statements of cash flows for the years then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

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

Basis for Opinion

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

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

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

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

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

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

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

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

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

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

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

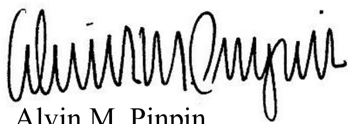
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we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

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

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

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

SYCIP GORRES VELAYO & CO.



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GLOBAL BUSINESS POWER CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

	December 31	
	2019	2018
ASSETS		
Current Assets		
Cash and cash equivalents (Notes 4 and 24)	**₱8,316,923,096**	₱9,069,477,067
Restricted cash and cash equivalents (Notes 4 and 24)	**2,630,856,951**	2,559,334,649
Short-term investments (Notes 4 and 24)	**675,201,026**	71,579,824
Receivables (Notes 5 and 24)	**4,645,284,344**	5,120,158,682
Inventories (Note 6)	**2,376,591,967**	2,692,177,838
Prepayments and other current assets (Note 7)	**1,539,178,589**	1,552,176,353
	20,184,035,973	21,064,904,413
Noncurrent assets held for sale (Note 12)	–	1,250,434,685
Total Current Assets	**20,184,035,973**	22,315,339,098
Noncurrent Assets		
Long-term receivables - net of current portion (Notes 5 and 8)	**181,488,555**	43,765,962
Financial asset at fair value through other comprehensive income (FVOCI) (Notes 11 and 24)	**1,634,111,657**	1,871,885,393
Investment in and advances to associate (Note 10)	**4,715,986,689**	4,559,167,725
Property, plant and equipment (Note 12)	**44,989,457,089**	45,929,248,434
Deferred tax assets - net (Note 21)	**741,011,129**	560,038,457
Goodwill (Note 13)	**555,815,463**	596,408,479
Other noncurrent assets (Note 13)	**497,466,080**	625,796,328
Total Noncurrent Assets	**53,315,336,662**	54,186,310,778
TOTAL ASSETS	**₱73,499,372,635**	₱76,501,649,876
LIABILITIES AND EQUITY		
Current Liabilities		
Accounts payable and accrued expenses (Notes 14 and 24)	**₱3,920,318,085**	₱3,728,617,067
Current portion of long-term debt (Note 15)	**3,553,582,093**	3,477,964,532
Dividends payable (Note 25l)	**3,495,478,850**	3,361,369,500
Income tax payable	**361,446,346**	214,384,763
Total Current Liabilities	**11,330,825,374**	10,782,335,862
Noncurrent Liabilities		
Long-term debt - net of current portion (Note 15)	**28,092,344,885**	31,644,079,762
Deferred tax liabilities - net (Note 21)	**108,265,548**	133,672,328
Retirement benefit obligation (Note 18)	**935,445,367**	647,917,781
Advances from shareholder (Note 20a)	**79,715,671**	74,010,046
Provisions (Note 16)	**1,869,737,245**	2,033,886,893
Total Noncurrent Liabilities	**31,085,508,716**	34,533,566,810
Total Liabilities	**42,416,334,090**	45,315,902,672

(Forward)

	December 31	
	2019	2018
Equity Attributable to Equity Holders of the Parent (Note 22)		
Capital stock - ₱1 par value		
Authorized - 3,000,000,000 shares		
Issued - 1,924,020,965 shares	**₱1,924,020,965**	₱1,924,020,965
Additional paid-in capital	**19,550,064,658**	19,550,064,658
Other comprehensive income (loss):		
Unrealized valuation gain on financial asset at FVOCI (Note 11)	**1,484,109,267**	1,721,883,003
Remeasurement gain (loss) on retirement benefit obligation (Note 18)	**(175,782,847)**	49,512,512
Retained earnings	**2,904,323,124**	2,755,909,762
	25,686,735,167	26,001,390,900
Non-controlling Interests	**5,396,303,378**	5,184,356,304
Total Equity	**31,083,038,545**	31,185,747,204
TOTAL LIABILITIES AND EQUITY	**₱73,499,372,635**	₱76,501,649,876

See accompanying Notes to Consolidated Financial Statements.

GLOBAL BUSINESS POWER CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

	Years Ended December 31	
	2019	2018
REVENUES (Note 1)		
Net fees	**₱24,056,444,694**	₱26,535,025,875
Coal sales	**107,220,754**	287,149,068
	24,163,665,448	26,822,174,943
COSTS AND EXPENSES		
Power plant operations and maintenance costs (Note 17)	**11,388,121,253**	14,316,527,463
Depreciation and amortization (Notes 12 and 13)	**2,928,351,472**	2,559,372,588
Personnel costs (Note 18)	**1,231,038,515**	1,224,381,483
Regulatory taxes and licenses	**938,572,824**	927,165,124
Outside services	**571,025,369**	488,826,391
Provision for impairment losses (Notes 5, 6 and 13)	**274,567,456**	304,493,073
Insurance	**203,486,737**	197,094,375
Travel and representation	**116,137,154**	94,003,319
Professional fees	**41,158,103**	77,507,449
Rent and utilities (Note 23)	**18,011,600**	57,937,684
Supplies	**13,069,746**	11,442,088
Telecommunications and postage	**11,443,869**	13,863,515
Others	**289,536,059**	331,755,080
	18,024,520,157	20,604,369,632
FINANCE COSTS - net (Note 19)	**2,264,437,574**	2,238,609,539
OTHER INCOME - net (Note 19)	**1,134,739,341**	658,795,345
INCOME BEFORE INCOME TAX	**5,009,447,058**	4,637,991,117
PROVISION FOR INCOME TAX (Note 21)		
Current	**1,201,804,570**	1,281,825,304
Deferred	**(99,192,331)**	(160,840,021)
	1,102,612,239	1,120,985,283
NET INCOME	**3,906,834,819**	3,517,005,834
OTHER COMPREHENSIVE INCOME (LOSS)		
Other comprehensive income (loss) not to be reclassified to profit or loss in subsequent periods:		
Remeasurement income (loss) on retirement benefits, net of deferred tax (Note 18)	**(259,088,742)**	113,036,514
Changes in fair value of financial asset at FVOCI (Note 11)	**(237,773,736)**	(814,724,714)
	(496,862,478)	(701,688,200)
TOTAL COMPREHENSIVE INCOME	**₱3,409,972,341**	₱2,815,317,634

	Years Ended December 31	
	2019	2018
NET INCOME ATTRIBUTABLE TO:		
Equity holders of the parent	**₱2,648,413,362**	₱2,483,573,218
Non-controlling interests	**1,258,421,457**	1,033,432,616
	₱3,906,834,819	₱3,517,005,834
TOTAL COMPREHENSIVE INCOME ATTRIBUTABLE TO:		
Equity holders of the parent	**₱2,185,344,267**	₱1,771,682,390
Non-controlling interests	**1,224,628,074**	1,043,635,244
	₱3,409,972,341	₱2,815,317,634

See accompanying Notes to Consolidated Financial Statements.

GLOBAL BUSINESS POWER CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018

	Equity Attributable to Equity Holders of the Parent							
			Other Comprehensive Income (Loss)					
	Capital Stock (Note 25l)	Additional Paid-in Capital	Unrealized Valuation Gain on Financial Asset at FVOCI (Note 11)	Remeasurement Gain (Loss) on Retirement Benefit Obligation (Note 18)	Retained Earnings	Total	Non-controlling Interests	Total
Balances at January 1, 2018	₱1,924,020,965	₱19,550,064,658	₱2,536,607,717	(₱53,321,374)	₱2,772,336,544	₱26,729,708,510	₱4,902,099,810	₱31,631,808,320
Conversion of advances from stockholder to capital stock subscription	–	–	–	–	–	–	114,491,250	114,491,250
Dividends declared (Note 25l)	–	–	–	–	(2,500,000,000)	(2,500,000,000)	(875,870,000)	(3,375,870,000)
Net income	–	–	–	–	2,483,573,218	2,483,573,218	1,033,432,616	3,517,005,834
Other comprehensive loss	–	–	(814,724,714)	102,833,886	–	(711,890,828)	10,202,628	(701,688,200)
Total comprehensive income (loss)	–	–	(814,724,714)	102,833,886	2,483,573,218	1,771,682,390	1,043,635,244	2,815,317,634
Balances at December 31, 2018	1,924,020,965	19,550,064,658	1,721,883,003	49,512,512	2,755,909,762	26,001,390,900	5,184,356,304	31,185,747,204
Dividends declared (Note 25l)	–	–	–	–	(2,500,000,000)	(2,500,000,000)	(1,012,681,000)	(3,512,681,000)
Net income	–	–	–	–	2,648,413,362	2,648,413,362	1,258,421,457	3,906,834,819
Other comprehensive loss	–	–	(237,773,736)	(225,295,359)	–	(463,069,095)	(33,793,383)	(496,862,478)
Total comprehensive income (loss)	–	–	(237,773,736)	(225,295,359)	2,648,413,362	2,185,344,267	1,224,628,074	3,409,972,341
Balances at December 31, 2019	**₱1,924,020,965**	**₱19,550,064,658**	**₱1,484,109,267**	**(175,782,847)**	**₱2,904,323,124**	**₱25,686,735,167**	**₱5,396,303,378**	**₱31,083,038,545**

See accompanying Notes to Consolidated Financial Statements.

GLOBAL BUSINESS POWER CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS

	Years Ended December 31	
	2019	2018
CASH FLOWS FROM OPERATING ACTIVITIES		
Income before income tax	**₱5,009,447,058**	₱4,637,991,117
Adjustments for:		
Depreciation and amortization (Notes 12 and 13)	**2,928,351,472**	2,559,372,588
Interest expense (Note 19)	**2,601,942,871**	2,538,297,302
Equity on income from associate (Note 19)	**(434,318,954)**	(300,726,763)
Interest income (Note 19)	**(371,430,118)**	(314,564,150)
Loss (gain) on disposal of property and equipment (Note 19)	**(148,769,809)**	514,274
Changes in retirement benefit obligation (Note 18)	**341,985,869**	(78,559,452)
Provision (reversal of provision) for impairment loss on input value-added tax (Note 13)	**104,728,169**	1,151,948
Amortization of deferred financing cost (Note 15)	**59,556,512**	62,157,526
Impairment of goodwill (Note 13)	**40,593,016**	44,855,721
Dividend income (Notes 11 and 19)	**(39,419,088)**	(32,542,310)
Accretion on decommissioning liability (Notes 16 and 19)	**31,025,108**	15,382,507
Net unrealized foreign exchange loss (gain)	**14,123,001**	(49,852,939)
Accretion of lease liabilities	**3,132,411**	–
Amortization of discount on long-term receivables (Note 19)	**(232,698)**	(506,120)
Operating income before working capital changes	**10,140,714,820**	9,082,891,249
Decrease (increase) in:		
Restricted cash	**(71,522,302)**	(1,192,496,851)
Short-term investments	**(603,641,142)**	357,789,188
Receivables	**(450,921,625)**	(506,266,837)
Inventories	**315,585,871**	(178,479,942)
Prepayments and other current assets	**(88,136,592)**	184,263,149
Increase (decrease) in:		
Accounts payable and accrued expenses	**211,193,816**	(597,822,534)
Provisions	**164,149,648**	118,329,551
Net cash generated from operations	**9,617,422,494**	7,268,286,973
Interest received	**371,430,118**	305,344,401
Interest paid	**(2,563,143,338)**	(2,330,866,088)
Income taxes paid	**(1,044,678,197)**	(1,463,943,276)
Net cash flows from operating activities	**6,381,031,077**	3,778,822,010

(Forward)

	Years Ended December 31	
	2019	2018
CASH FLOWS FROM INVESTING ACTIVITIES		
Additions to property, plant and equipment	**(₱784,200,499)**	(₱1,692,078,882)
Dividends received (Notes 10, 11 and 19)	**504,419,072**	220,042,304
Investment in an associate (Note 10)	**–**	(148,348,275)
Increase in other noncurrent assets	**84,167,811**	(38,209,687)
Proceeds from disposal of property and equipment	**5,133,813**	1,996,990
Net cash flows used in investing activities	**(190,479,803)**	(1,656,597,550)
CASH FLOWS FROM FINANCING ACTIVITIES		
Payments of:		
Dividends paid (Note 25l)	**(3,361,369,500)**	(3,427,474,900)
Long-term debt (Notes 15 and 25l)	**(3,535,673,828)**	(3,082,732,652)
Lease liabilities (Note 23 and 25l)	**(37,644,541)**	–
Advances from stockholder (Note 25l)	**5,705,625**	39,167,277
Net cash flows used in financing activities	**(6,928,982,244)**	(6,471,040,275)
EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS	**(14,123,001)**	4,195,852
NET DECREASE IN CASH AND CASH EQUIVALENTS	**(752,553,971)**	(4,344,619,963)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	**9,069,477,067**	13,414,097,030
CASH AND CASH EQUIVALENTS AT END OF YEAR (Note 4)	**₱8,316,923,096**	₱9,069,477,067

See accompanying Notes to Consolidated Financial Statements.

1. **Corporate Information**

Global Business Power Corporation (GBPC; the Parent Company) and its subsidiaries (collectively referred to as "the Group") are engaged in generating power (derived from coal, fossil fuel, geothermal, nuclear, natural gas, hydroelectric and other viable sources of power), trading of goods, to sell, broker, market or aggregate electricity, and to develop, construct, erect, assemble, commission, own, operate, maintain, rehabilitate and manage facilities used in the generation of electricity.

As of December 31, 2019 and 2018, the Parent Company is 56% owned by Beacon PowerGen Holdings, Inc. (Beacon Power), 30% by JG Summit Holdings, Inc. and 14% owned by Meralco Powergen Corporation (MGen). Beacon Power is a wholly owned subsidiary of Beacon Electric Asset Holdings, Inc. (BEAHI), which in turn is a 100% subsidiary of Metro Pacific Investments Corporation (MPIC).

ARB Power Ventures, Inc. (APVI)
As of December 31, 2019 and 2018, the Parent Company owns 100.00% interest in APVI. In general partnership with the Parent Company, APVI has 86.10% interest in Toledo Power Company (TPC).

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

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

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

On June 5, 2012, an Energy Conversion Agreement (ECA) was entered into by TPC and CCC wherein the latter will be supplying the coal necessary to generate the electricity it will purchase from TPC and will continue until the completion and start of the commercial operations of TPC1-A. On the same date, TPC entered into an EPPA with CCC for the supply and purchase of electricity generated by TPC1-A, for a cooperation period of 12 years. This EPPA was later converted to an ECA on December 15, 2014.

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

Toledo Holdings Corporation (THC) and Global Trade Energy Resources Corp. (GTERC)
THC owns parcels of land where the power stations of Panay Power Corporation (PPC) are located. THC leases land to PPC for a period of one year, renewable every year and under such terms and conditions as may be agreed upon by both parties. PPC continues to lease land from THC as of December 31, 2019.

THC is a wholly owned subsidiary of the Parent Company.

GTERC, engaged in the business of trading coal which acts as an intermediary between suppliers and ultimate consumers of coal, is a wholly owned subsidiary of the Parent Company.

Panay Power Holdings Corporation (PPHC)
As of December 31, 2019 and 2018, PPHC is 89.30% owned by the Parent Company, 8% owned by La Filipina Uy Gongco Corporation (LFUGC) and 2.7% owned by Delta Pi Limited (DPL). PPHC has 100.00% interest in PPC and Panay Energy Development Corporation (PEDC).

PPC
As of December 31, 2019 and 2018, PPC owns and operates a total of 104.50 MW of bunker fuel power plants located in La Paz, Iloilo City and Aklan.

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

Under the EPPA with Iloilo I Electric Cooperative, Inc. (ILECO-1), PPC is committed to supply up to 8MW of electricity, and in turn, ILECO-1 is committed to accept electricity levels from PPC at agreed minimum levels and prices during the cooperation period of 20 years from the start of commercial operations.

For its Aklan Plants, PPC has an EPPA with Aklan Electric Cooperative, Inc. (AKELCO) for the supply of electricity for a period of 20 years from the start of commercial operations of the Aklan Plants.

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

In June 2018, PPC entered into an Ancillary Services Procurement Agreement (ASPA) with NGCP for five years starting October 2019 for the operation and dispatch of the Generation Facility in order to provide ancillary services to the Visayas Grid.

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

Phase I was completed and operated in March 2011.

In 2014, PEDC Phase II began construction of a new 1x150 MW power generating unit within the same industrial area where the Phase I is located. The project was completed and accepted in May 2018. On January 26, 2017, supply contracts with the customers for Phase II project became effective.

PEDC has two Board of Investments (BOI) registrations for its Phase I and Phase II projects. As BOI registered entity, PEDC is entitled to several incentives including an Income Tax Holiday (ITH) as a pioneer entity (for Phase I) for four years from March 26, 2011, the actual start date of commercial operations. PEDC has availed of a two-year ITH extension for the Phase I project until March 25, 2017. On the other hand, the Phase II project of PEDC is also entitled to ITH incentive as an expansion entity for 3 years from August 1, 2016 or on the actual start date of commercial operations, whichever is earlier, but in no case earlier than the date of registration. The ITH for the Phase II project has ended on July 31, 2019.

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

Under the EPPAs, PEDC is committed to supply electricity during the 25-year cooperation period from commencement date, except for ILECO-1 whose cooperation date commenced on April 26, 2011.

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

PEDC and the National Grid Corporation of the Philippines (NGCP) executed an Ancillary Services Procurement Agreement (ASPA) on September 14, 2017 for the supply of Contingency Reserve in the Visayas Grid for a period of five years under a Firm and a Non-Firm agreement.

GBH Power Resources, Inc. (GPRI)

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

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

The EPPA will expire in December 2020. GPRI is currently working out to renew its contract with ORMECO. GPRI will participate in the bidding as part of the competitive selection process upon release of ORMECO's terms of reference. Management has also been exploring two options if there is a possibility that the EPPA will not be renewed: (1) to pursue for an emergency power contracting with ORMECO valid for one year after the contract expiration considering the demand or (2) to agree with ORMECO to extend the cooperation period based on the receivable amount to be recovered in relation to the dispute filed by GPRI since ORMECO has not been paying in full the contracted

minimum kWh energy off-take quantity. Management had initial discussions with ORMECO and is working with regulatory entities as to the plans of renewal.

Global Formosa Power Holdings, Inc. (GFPHI)
GFPHI was incorporated on May 5, 2008, primarily to acquire and own, hold, use, manage, sell, assign, transfer, mortgage, pledge, exchange or otherwise dispose of real and personal property and to do acts of being a holding company in power generation projects in the Philippines except to act as brokers/dealers in securities. As of December 31, 2019 and 2018, the Parent Company has 93.20% interest in GFPHI and 6.8% owned by Flat World Limited (Flatworld).

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

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

On August 1, 2011, CEDC and the PEMC entered into a Market Participation Agreement (MPA) setting forth the terms and conditions for the eligibility of CEDC to participate in the WESM which allows electricity to be injected into or withdrawn from the Grid.

On September 14, 2017, CEDC and the NGCP entered into ASPA setting forth the terms and conditions: (a) under which NGCP shall procure ancillary services from CEDC, and (b) for the operation and dispatch of the generation facility in order to provide ancillary services to the Visayas Grid.

GESC
The Parent Company owns 100.00% interest in GESC. GESC was issued a Retail Electricity Supplier (RES) license by the Energy Regulatory Commission (ERC) on September 12, 2011 which was renewed on September 13, 2016 and will expire on September 12, 2021.

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

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

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

GESC also entered into EPPAs with CEDC, TPC and PEDC for the supply of electricity to GESC's contestable customers.

Mindanao Energy Development Corporation (MEDC) and Global Hydro Power Corporation (GHPC)
On December 28, 2012 and March 17, 2014, MEDC and GHPC, respectively, were incorporated primarily to carry on the general business of generating electric power. As of December 31, 2019 and 2018, MEDC and GHPC are still in pre-operating stage. MEDC and GHPC are 100% owned by the Parent Company.

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

In 2016, the Parent Company moved forward with the Luna Coal Plant Project. This project is for the construction of a 2x335-MW coal power plant in Luna, La Union through GLEDC and partners. Currently, the pre-development activities for the project's implementation has started, including payment of deposit for the acquisition of certain asset. In 2019, the study and parcellary survey for the transmission lines has started. The expected commercial operation of the plant shall be in 2025 and 2026 for Units 1 and 2, respectively. GLEDC is expected to generate future revenues at the start of its commercial operations.

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

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

Global Renewables Power Corporation (GRPC)
On April 8, 2014, GRPC was incorporated for the purpose of engaging in the business of power generation derived from renewable energy resources. GRPC owns 100.00% of CACI Power Corporation (CPC).

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

A summary of project agreements of TPC, PPC, GPRI, PEDC and CEDC (collectively referred to as "Operating Subsidiaries") with customers covering the construction and operation of power stations follows (see Note 25m):

Name of Company	Power Station	Location	Customer	Cooperation Period
TPC	100 MW coal and industrial fuel oil	Toledo City, Cebu	NGCP - ASPA	5 years commencing on June 26, 2019
			MERALCO	January 22, 2016 until February 25, 2017 actually terminated on February 25, 2018
			Therma Visayas Incorporated	March 26, 2017 to March 25, 2018 (contract terminated on March 25, 2018)
	82 MW coal-fired CFB technology	Toledo City, Cebu	CEBECO III	February 26, 2015 to February 26, 2040

Name of Company	Power Station	Location	Customer	Cooperation Period
TPC	82 MW coal-fired CFB technology	Toledo City, Cebu	CCC	12 years commencing on December 26, 2015
			PMSC - Bohol	2 years commencing on December 26, 2018
			Filinvest Development Corporation (FDC Utilities)	2 years commencing on October 26, 2019
PPC	72 MW bunker fuel oil	La Paz, Iloilo City	PECO	March 26, 2011 to March 25, 2026
PPC	72 MW bunker fuel oil	La Paz, Iloilo City	MERALCO	January 22, 2016 to February 18, 2018 (contract was not renewed)
	20 MW industrial fuel oil	La Paz, Iloilo City	ILECO-I	2005 to 2025
	5 MW industrial fuel oil	New Washington Aklan	AKELCO	2005 to 2025
	7.5 MW industrial fuel oil	Nabas, Aklan	NGCP - ASPA	5 years commencing on September 26, 2019
GPRI	7.5 MW bunker fuel oil	Pinamalayan Oriental Mindoro	ORMECO	20 years from start of cooperation period
PEDC	164 MW coal-fired CFB technology	Iloilo City	CAPELCO	25 commencing on September 19, 2011
PEDC	164 MW coal-fired CFB technology	Iloilo City	ILECO-2 ILECO-3 PECO ANTECO AKELCO	25 years commencing on March 26, 2011
			ILECO-1	25 years commencing on April 27, 2011
			Iloilo Provincial Capitol	5 years commencing on the commercial operation date (contract was renewed for 1 year & renewable on an annual basis)
			Philippine Phosphate Fertilizer Corporation	5 years commencing on the commercial operation date (contract has ended in May 2018)
			NGCP - ASPA	5 years commencing on April 26, 2018
PEDC	150 MW coal-fired CFB technology	Iloilo City	ILECO-1 ILECO-2 ILECO-3 ANTECO Guimaras Electric Cooperative, Inc.	25 years commencing on January 26, 2017
			MERALCO	20 years commencing on January 26, 2017
CEDC	246 MW coal-fired CFB technology	Toledo City, Cebu	VECO	25 years commencing on February 26, 2011
			MECO	15 years commencing on February 26, 2011

Name of Company	Power Station	Location	Customer	Cooperation Period
Name of Company	Power Station	Location	Customer	Cooperation Period
CEDC	246 MW coal-fired CFB technology	Toledo City, Cebu	BOHECO	15 years commencing on February 26, 2011
			BEZ	15 years commencing on February 26, 2011
			CEBECO I CEBECO II	15 years commencing on February 26, 2011
			MEZ	10 years commencing on April 26, 2011
			NGCP - ASPA	5 years commencing on April 26, 2018

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

Authorization for the Issuance of the Consolidated Financial Statements
The consolidated financial statements of the Group as of and for the years ended December 31, 2019 and 2018 were authorized for issue by the BOD on February 26, 2020.

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

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

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

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

	Country of Domicile	Percent of Effective Ownership **2019**	2018
APVI	Philippines	**100.00**	100.00
CPC[1]	Philippines	**100.00**	100.00
GPRI	Philippines	**100.00**	100.00
GESC	Philippines	**100.00**	100.00
GHPC	Philippines	**100.00**	100.00
GRPC	Philippines	**100.00**	100.00
MEDC	Philippines	**100.00**	100.00
GTERC[1]	Philippines	**100.00**	100.00
THC	Philippines	**100.00**	100.00
TPC[1]	Philippines	**100.00**	100.00
GFPHI	Philippines	**93.20**	93.20
PPHC	Philippines	**89.30**	89.30
PPC[1]	Philippines	**89.30**	89.30

(Forward)

	Country of Domicile	Percent of Effective Ownership	
		2019	2018
PEDC[1]	Philippines	**89.30**	89.30
LPCI	Philippines	**57.50**	57.50
GLEDC[1]	Philippines	**57.50**	57.50
CEDC[1]	Philippines	**52.19**	52.19

[1] *Indirect ownership.*

The Parent Company controls an investee if and only if the Parent Company has all the following:
- Power over the investee (i.e. existing rights that give it the current ability to direct the relevant activities of the investee);
- Exposure, or rights, to variable returns from its involvement with the investee; and
- The ability to use its power over the investee to affect its returns.

Generally, there is a presumption that a majority of voting rights result in control. To support this presumption and when the Group has less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:
- The contractual arrangement with the other vote holders of the investee;
- Rights arising from other contractual arrangements; and
- The Group's voting rights and potential voting rights.

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

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

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

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

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

When a change in ownership interest in a subsidiary occurs which results in a loss of control over the subsidiary, the Parent Company:
- Derecognizes the related assets (including goodwill) and liabilities of the subsidiary;
- Derecognizes the carrying amount of any NCIs;

- Derecognizes the cumulative translation differences, recognized in equity;
- Recognizes the fair value of the consideration received;
- Recognizes the fair value of any investment retained;
- Recognizes any surplus or deficit in profit or loss; and
- Reclassifies the Parent Company's share of components previously recognized in other comprehensive income to profit or loss or retained earnings, as appropriate.

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

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

Changes in Accounting Policies and Disclosures
The accounting policies adopted are consistent with those of the previous financial year, except that the Group has adopted the following new accounting pronouncements starting January 1, 2019.

- PFRS 16, *Leases*

  PFRS 16 supersedes Philippine Accounting Standard (PAS) 17, *Leases,* Philippine Interpretation International Financial Reporting Interpretations Committee (IFRIC) 4, *Determining whether an Arrangement contains a Lease*, Philippine Interpretation Standard Interpretation Committee (SIC)-15, *Operating Leases-Incentives* and Philippine Interpretation 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 recognize most leases on the consolidated statements of financial position.

  The Group adopted PFRS 16 using the modified retrospective approach in 2019 and elects to apply the standard to contracts that were previously identified as leases applying PAS 17. The Group will therefore not apply the standard to contracts that were not previously identified as containing a lease applying PAS 17.

  The effect of adoption of PFRS 16 as at January 1, 2019 is, as follows:

	Increase
Assets	
Prepayments and other current assets	**(₱1,750,000)**
Property and equipment	
Right-of-use assets	**73,759,030**
Other noncurrent assets	**(11,520,833)**
Liabilities	
Accounts payable and accrued expenses	
Lease liabilities	**₱60,488,197**

  The Group has leases for various items such as parcels of land, warehouse space, office equipment and office spaces. Before the adoption of PFRS 16, the Group classified each of its leases (as a lessee) at the inception date as an operating lease. Before the adoption of PFRS 16, the Group classified each of its leases (as lessee) at the inception date as an operating lease.

Refer to the Summary of Significant Accounting Policies section for the accounting policy prior to January 1, 2019.

Upon adoption of IFRS 16, the Group applied a single recognition and measurement approach for all leases except for short-term leases and leases of low-value assets. Refer to the Summary of Significant Accounting Policies section for the accounting policy beginning January 1, 2019.

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 all leases were recognized based on the amount equal to the lease liabilities. Lease liabilities were recognized based on the present value of the remaining lease payments, discounted using the incremental borrowing rate (IBR) at the date of initial application.

The Group also applied the available practical expedients wherein it:
- Used a single discount rate to portfolio leases with reasonably similar characteristics;
- Applied the short-term leases exemptions to leases with lease term that ends within 12 months of the date of initial application; and
- Used hindsight in determining the lease term where the contract contained options to extend or terminate the lease.

Based on the above, as at January 1, 2019:
- Property and equipment amounting to ₱73.76 million were recognized representing the amount of right-of-use asset; and
- A decrease on prepayments and other current assets and other noncurrent assets amounting to ₱1.75 million and ₱11.52 million, respectively, representing prepaid rent adjusted to the right-of-use asset.
- Lease liabilities amounting to ₱60.49 million was recognized.

The lease liability as at January 1, 2019 as can be reconciled to the operating lease commitments as of December 31, 2018 follows:

Operating lease commitments as at December 31, 2018	₱64,450,319
Weighted average incremental borrowing rate at January 1, 2019	6.96%
Lease liability recognized at January 1, 2019	₱60,488,197

The adoption of PFRS 16 will not have an impact on equity in 2019, since the Group elected to measure the right-of-use assets at an amount equal to the lease liabilities.

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

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

  The interpretation specifically addresses the following:
  - Whether an entity considers uncertain tax treatments separately;
  - The assumptions an entity makes about the examination of tax treatments by taxation authorities;

- How an entity determines taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates; and
- How an entity considers changes in facts and circumstances.

The Group is required to determine whether to consider each uncertain tax treatment separately or together with one or more other uncertain tax treatments and use the approach that better predicts the resolution of the uncertainty. The Group shall assume that the taxation authority will examine amounts that it has a right to examine and have full knowledge of all related information when making those examinations. If the Group concludes that it is not probable that the taxation authority will accept an uncertain tax treatment, it shall reflect the effect of the uncertainty for each uncertain tax treatment using the method the Group expects to better predict the resolution of the uncertainty.

The Group applies significant judgment in identifying uncertainties over income tax treatments. Upon adoption of the interpretation, the Group considered whether it has any uncertain tax positions. The Group determined, based on its tax compliance, that it is probable that its tax treatments will be accepted by the taxation authority.

The interpretation did not have an impact on the consolidated financial statements.

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

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

The amendments had no impact on the consolidated financial statements as it did not have any prepayment with negative compensation during the period.

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

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

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

The amendments also clarify that an entity first determines any past service cost, or a gain or loss on settlement, without considering the effect of the asset ceiling. This amount is recognized in profit or loss. An entity then determines the effect of the asset ceiling after the plan amendment,

curtailment or settlement. Any change in that effect, excluding amounts included in the net interest, is recognized in other comprehensive income.

The amendments had no impact on the consolidated financial statements 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 Losses (ECLs) 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's advances to an associate are accounted for as nonfinancial assets.
- *Annual Improvements to PFRSs* 2015-2017 Cycle

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

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

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

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

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

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

An entity applies those amendments for annual reporting periods beginning on or after January 1, 2019, with early application permitted.

These amendments are not relevant to the Group because dividends declared do not give rise to the tax obligations under 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.

  These amendments are currently not applicable to the Group but may apply to future transactions.

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 the 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); or
  - 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

Current versus Noncurrent Classification
The Group presents assets and liabilities in the consolidated statements 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 12 months after the reporting period; or
- Cash unless restricted from being exchanged or used to settle a liability for at least 12 months after the reporting period.

All other assets are classified as noncurrent.

A liability is current when:
- It is expected to be settled in normal operating cycle;
- It is held primarily for the purpose of trading;
- It is due to be settled within 12 months after the reporting period; or
- There is no unconditional right to defer the settlement of the liability for at least 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 includes cash on hand and in banks. Cash in banks earn interest at floating rates based on daily bank deposit rates. Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash with original maturities of three months or less from the date of placement and that are subject to an insignificant risk of change in value.

Restricted Cash and Cash Equivalents
Restricted cash and cash equivalents represents cash in banks and cash equivalents earmarked for currently maturing portion of long-term debt principal and interest payment maintained in compliance with loan agreements.

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

Fair Value Measurement
Certain assets and liabilities are required to be measured or disclosed at fair value at each reporting date. Fair value is the estimated price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:
- In the principal market for the asset or liability; or
- In the absence of a principal market, in the most advantageous market for the asset or liability.

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

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

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

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

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

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

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

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

<u>Financial Instruments</u>
A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another entity.

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

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

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

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 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 SPPI 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: Subsequent Measurement. For purposes of subsequent measurement, financial assets are classified in four categories:
- Financial assets at amortized cost (debt instruments);
- Financial assets at FVOCI with recycling of cumulative gains and losses (debt instruments);
- Financial assets designated at FVOCI with no recycling of cumulative gains and losses upon derecognition (equity instruments); or
- Financial assets at FVTPL.

The Group's financial assets are classified under financial assets at amortized cost and FVOCI.

Financial Assets at Amortized Cost (Debt Instruments). The Group measures financial assets at amortized cost if both of the following conditions are met:
- the financial asset is held within a business model with the objective to hold financial assets in order to collect contractual cash flows; and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are SPPI on the principal amount outstanding.

Financial assets at amortized cost are subsequently measured using the effective interest (EIR) method and are subject to impairment. Gains and losses are recognized in profit or loss when the asset is derecognized, modified or impaired. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees and costs that are an integral part of the EIR. The amortization is included in 'Interest income' in the consolidated statements of comprehensive 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.

The Group's financial assets at amortized cost includes "Cash and cash equivalents", "Restricted cash and cash equivalents", "Short-term investments", "Receivables", "Long-term receivables" and

security and special deposits under "Prepayments and other current assets" and special deposits under "Goodwill and other noncurrent assets" accounts.

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

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

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

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

ECLs are 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.

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

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

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

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

The Group considers a financial asset to be in default when internal or external information indicates that the Group is unlikely to receive the outstanding contractual amounts in full before taking into account any credit enhancements held by the Group. A financial asset is written off when there is no reasonable expectation of recovering the contractual cash flows.

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.

The Group's financial liabilities are all classified and measured at amortized cost.

Financial Liabilities: Initial Recognition and Measurement. Financial liabilities are classified, at initial recognition, as financial liabilities at FVTPL, amortized cost, payables, or as derivatives designated as hedging instruments in an effective hedge, as appropriate.

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

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

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

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

<u>Reclassifications of Financial Instruments</u>
The Group reclassifies its financial assets when, and only when, there is a change in the business model for managing the financial assets. Reclassifications shall be applied prospectively by the Group and any previously recognized gains, losses or interest shall not be restated. The Group does not reclassify its financial liabilities.

The Group does not reclassify its financial assets when:
- A financial asset that was previously a designated and effective hedging instrument in a cash flow hedge or net investment hedge no longer qualifies as such;

- A financial asset becomes a designated and effective hedging instrument in a cash flow hedge or net investment hedge; and
- There is a change in measurement on credit exposures measured at FVTPL.

Derecognition of Financial Assets and Liabilities

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

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

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 its 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 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 consolidated statements 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 Liabilities. A financial liability is derecognized when the obligation under the liability is discharged or cancelled or has expired. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as the derecognition of the original liability and the recognition of a new liability. The difference in the respective carrying amounts is recognized in the consolidated statements of comprehensive 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 set off the recognized amounts and there is intention to settle on a net basis, or to realize the asset and settle the liability simultaneously. The Group assesses that it has a currently enforceable right of offset if the right is not contingent on a future event, and is legally enforceable in the normal course of business, event of default, and event of insolvency or bankruptcy of the Group and all of the counterparties.

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

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

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

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

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

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

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

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

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

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

Any contingent consideration to be transferred by the acquirer will be recognized at fair value at the acquisition date. Contingent consideration classified as an asset or liability that is a financial instrument and within the scope of PFRS 9, is measured at fair value with changes in fair value recognized in profit or loss.

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

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

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

<u>Other Assets</u>

Prepaid Expenses

Prepaid expenses include items of goods or services purchased by the Group for use in its operations but not fully consumed by the end of the accounting period. When goods or services are initially purchased, the amount is recorded in an asset account. At the end of the period, the Group determines the portion of such expenditures that is applicable to subsequent period and the portion used up during the current period. The used-up portion is recognized in profit or loss.

Input Value-Added Tax (VAT)

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

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

Creditable Withholding Taxes (CWTs)

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

Computer Software and Licenses

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

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

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

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

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

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

If the criteria for held for sale classification is no longer met, the Group ceases to classify the asset as held for sale.

The Group measures a noncurrent asset that ceases to be classified as held for sale at the lower of:
(a) its carrying amount before the asset was classified as held for sale adjusted for any depreciation that would have been recognized had the asset not been classified as held for sale; or
(b) its recoverable amount at the date of reclassification.

Property, Plant and Equipment
The Group's property and equipment consist of boilers and powerhouse, buildings and land improvements, turbine generators and desox system, electrical distribution system, other property and equipment and right-of-use assets that do not qualify as investment properties.

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

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

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

Depreciation and amortization is calculated on a straight-line basis over the estimated useful lives of the assets or the term of the lease, whichever is shorter, as in the case of leasehold improvements.

Each part of an item of property, plant and equipment with a cost that is significant in relation to the total cost of the item is depreciated separately.

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

Category	Number of Years
Boilers and Powerhouse	3 to 25
Buildings and Land Improvements	5 to 25
Turbine Generators and Desox System	3 to 25
Electrical Distribution System	3 to 25
Other Property and Equipment	2 to 25
Right-of-use asset	2 to 8

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

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

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

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

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

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

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

Effective January 1, 2019, it is the Group's policy to classify right-of-use assets as part of property and equipment. Prior to that date, all of the Group's leases are accounted for as operating leases in accordance with PAS 17, hence, not recorded on the consolidated statements of financial position. 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 initially measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities. The initial cost of right-of-use assets includes the amount of lease liabilities recognized, initial direct costs incurred, lease payments made at or before the commencement date less any lease incentives received and estimate of costs to be incurred by the lessee in dismantling and removing the underlying asset, restoring the site on which it is located or restoring the underlying asset to the condition required by the terms and conditions of the lease, unless those costs are incurred to produce inventories.

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 their estimated useful life and lease term. Right-of-use assets are subject to impairment.

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

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

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

Impairment of Nonfinancial Assets
Property, plant and equipment and other nonfinancial assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. If any such indication exists and where the carrying amount of an asset exceeds its estimated recoverable amount, the asset or CGU is written down to its recoverable amount. The estimated recoverable amount is the higher of fair value less costs to sell and value in use. The fair value less costs to sell is the price that would be received to sell an asset in an orderly transaction

between market participants at the measurement date, less incremental costs for disposing of the asset, while value in use is the present value of estimated future cash flows expected to arise from the continuing use of an asset and from its disposal at the end of its useful life. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the non-financial asset. For an asset that does not generate largely independent cash inflows, the estimated recoverable amount is determined for the CGU to which the asset belongs. Impairment losses are recognized in the consolidated statements of comprehensive income.

Recovery of impairment losses recognized in prior years is recorded when there is an indication that the impairment losses recognized for the asset no longer exist or have decreased. The recovery is recorded in the consolidated statements of comprehensive income. However, the increased carrying amount of an asset due to a recovery of an impairment loss is recognized to the extent it does not exceed the carrying amount that would have been determined (net of depreciation and amortization) had no impairment loss been recognized for that asset in prior years.

Additional considerations for other nonfinancial assets are discussed below:

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

Goodwill
Goodwill is tested for impairment annually as of the end of each year and when circumstances indicate that the carrying value may be impaired.

Impairment is determined for goodwill by assessing the recoverable amount of each CGU (or group of CGUs) to which the goodwill relates. When the recoverable amount of the CGU is less than its carrying amount, an impairment loss is recognized. Impairment losses relating to goodwill cannot be reversed in future periods.

Lease Liability (upon adoption of PFRS 16)
At the commencement date of the lease, the Group recognizes lease liabilities measured at the present value of lease payments to be made over the lease term. The lease payments include fixed payments (including in substance fixed payments) less any lease incentives receivable, variable lease payments that depend on an index or a rate, and amounts expected to be paid under residual value guarantees. The lease payments also include the exercise price of a purchase option reasonably certain to be exercised by the Group and payments of penalties for terminating a lease, if the lease term reflects the Group exercising the option to terminate. The variable lease payments that do not depend on an index or a rate are recognized as expense in the period on which the event or condition that triggers the payment occurs.

In calculating the present value of lease payments, the Group uses the IBR 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.

Short-term Leases and Leases of Low-value Assets (upon adoption of PFRS 16)
The Group applies the short-term lease recognition exemption to its short-term leases of warehouse space, machinery and equipment (i.e., those leases that have a lease term of 12 months or less from the commencement date and do not contain a purchase option). It also applies the leases of low-value assets recognition exemption to leases of office equipment that are considered of low value. Lease payments on short-term leases and leases of low-value assets are recognized as expense on a straight-line basis over the lease term.

Leases (prior to adoption of PFRS 16)
The determination of whether an arrangement is, or contains a lease is based on the substance of the arrangement and requires an assessment of whether the fulfillment of the arrangement is dependent on the use of a specific asset or assets and the arrangement conveys a right to use the asset.
A reassessment is made after inception of the lease only if one of the following applies:
(a) there is a change in contractual terms, other than a renewal or extension of the arrangement;
(b) a renewal option is exercised or extension granted, unless that term of the renewal or extension was initially included in the lease term;
(c) there is a change in the determination of whether fulfillment is dependent on a specific asset; or
(d) there is a substantial change to the asset.

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

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

Retirement Benefit Obligation
The Group has a defined retirement benefit plan which requires contributions to be made to a separately administered fund.

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

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

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

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

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

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

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

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

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

Provisions

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

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

Decommissioning Liability

The decommissioning liability arising from PPC, TPC, GPRI, PEDC and CEDC’s obligations, under their Environmental Compliance Certificate, to decommission or dismantle their power plant complex at the end of its useful life. A corresponding asset is recognized as part of property, plant and equipment. Decommissioning costs are provided at the present value of expected costs to settle the obligation using estimated cash flows. The cash flows are discounted at a current pre-tax rate that reflects the risks specific to the decommissioning liability. The unwinding of the discount is expensed as incurred and recognized in the consolidated statements of comprehensive income as an

accretion of decommissioning liability under the "Finance costs - net" account. The estimated future costs of decommissioning are reviewed annually and adjusted prospectively. Changes in the estimated future costs or in the discount rate applied are added or deducted from the cost of the power plant complex. The amount deducted from the cost of the power plant complex shall not exceed its carrying amount.

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

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

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

Capital Stock
The Parent Company has issued common stock that is classified as equity.

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

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

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

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

Related Party Transactions

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

Revenue Recognition

Revenue from Contracts with Customers - Recognized Over Time. The Group has contracts with customers in the form of EPPAs, ASPA, and sale of electricity to WESM.

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

Revenue from contracts with customers is consummated whenever the electricity generated by the Group is transmitted through the transmission line designated by the buyer, for a consideration. Revenue from sale of electricity is recognized monthly based on the actual energy delivered made available to customers or minimum energy off take or contracted capacity, adjusted by actual days of downtime, whichever is higher.

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

Energy fees derived from trading operations are recognized based on actual delivery of such electricity supplied and made available to customers multiplied by the applicable tariff rate as agreed between Group and its customers.

Revenue from Contracts with Customers - Recognized at the Point in Time

Revenues from the following are recognized at the point in time when control of the asset is transferred to the customer, generally on delivery of the goods:

Coal Sales

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

Service Fees

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

Interest Income

Interest income from bank deposits, short-term investments and company-granted loans is recognized as it accrues using the EIR method. Interest income is included in “Finance costs - net” in the consolidated statements of comprehensive income.

Efficiency Gain

As part of the ECA with CCC, the latter provides coal inventory to TPC for use in the production of the energy requirements of CCC. Excess coal provided by CCC based on the ECA over the actual consumption is recognized as gain.

Dividend Income

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

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

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

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

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

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

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

Interest Expenses
Interest expenses are accrued in the appropriate period using the EIR method.

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

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

Current income tax relating to items recognized directly in equity is recognized in equity and not in the statements of comprehensive income. Management periodically evaluates positions taken in the tax returns with respect to situations in which applicable tax regulations are subject to interpretation and establishes provisions where appropriate.

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

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

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

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

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

Contingencies

Contingent liabilities are not recognized in the financial statements. These are disclosed unless the possibility of an outflow of resources embodying economic benefits is remote. Contingent assets are not recognized in the financial statements but are disclosed when an inflow of economic benefits is probable.

Events after the Reporting Date

Events after the reporting period are those events, favorable and unfavorable, that occur between the end of the reporting period and the date when the financial statements are authorized for issue. Post year-end events that provide additional information about the Group's position at the reporting date (adjusting events) are reflected in the financial statements. Post year-end events that are not adjusting events are disclosed in the notes to consolidated financial statements when material.

3. Significant Accounting Judgments, Estimates and Assumptions

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

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

Judgments

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

Determining Functional Currency

The functional currency of the Group has been determined to be the Philippine Peso. Based on the Group's evaluation, the Philippine Peso is the currency that most faithfully represents the economic substance of the Group's underlying transactions, events and conditions.

Classification of Financial Instruments

The Group exercises judgment in classifying a financial instrument, or its component parts, on initial recognition as either a financial asset, a financial liability or an equity instrument in accordance with the substance of the contractual arrangement and the definition of a financial asset, a financial liability or an equity instrument. The substance of a financial instrument, rather than its legal form, governs its classification in the consolidated statements of financial position.

As of December 31, 2019, the Group has financial assets classified and measured at amortized cost and FVOCI amounting to ₱15,833.02 million and ₱1,634.11 million, respectively. As of December 31, 2018, the Group has financial assets classified and measured at amortized cost and FVOCI amounting to ₱16,368.28 million and ₱1,871.89 million, respectively.

The Group also has financial liabilities classified and measured at amortized cost amounting to ₱45,638.38 million and ₱51,479.49 million as of December 31, 2019 and 2018, respectively (see Note 24).

Contractual Cash Flows Assessment

For each financial asset, the Group assesses the contractual terms to identify whether the instrument is consistent with the concept of SPPI. 'Principal' for the purpose of this test is defined as the fair value of the financial asset at initial recognition and may change over the life of the financial asset (for example, if there are repayments of principal or amortization of the premium/discount).

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

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

The Group assessed that contractual cash flows of its debt financial assets amounting to ₱15,833.02 million and ₱16,368.28 million are SPPI as of December 31, 2019 and 2018, respectively.

Evaluation of Business Model in Managing Financial Instruments

The Group determines its business model at the level that best reflects how it manages groups of financial assets to achieve its business objective. The Group's business model is not assessed on an instrument-by-instrument basis, but at a higher level of aggregated portfolios and is based on observable factors such as:

- How the performance of the business model and the financial assets held within that business model are evaluated and reported to the entity's key management personnel;

- The risks that affect the performance of the business model (and the financial assets held within that business model) and, in particular, the way those risks are managed; and
- The expected frequency, value and timing of sales are also important aspects of the Group's assessment.

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

Revenue from Contracts with Customers
The Group applied the following judgements that significantly affect the determination of the amount and timing of revenue from contracts with customers:

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

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

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

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

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

   Some contracts with customers provide for volume and prompt payment discounts that give rise to variable consideration. In estimating the variable consideration, the Group is required to use either the expected value method or the most likely amount method based on which method better predicts the amount of consideration to which it will be entitled. The expected value method of

estimation takes into account a range of possible outcomes while the most likely amount is used when the outcome is binary.

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

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

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

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

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

   The Group determined that the output method is the best method in measuring progress as actual electricity is supplied to customers.

Identifying Provisions for Other Liabilities
The Group determines whether it has a present obligation to recognize a provision arising from the difference in interpretation of regulatory provisions applicable to the power industry and other charges. Management exercises judgment in determining that it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and the provisions are based on the probable costs for the resolution. On the basis of the evaluation, management determines that provisions are recognized in accordance with the criteria of PAS 37, *Provisions, Contingent Liabilities and Contingent Assets*.

Operating Lease Commitments - Group as a Lessee (prior to adoption of PFRS 16)
The Group has entered into various lease agreement as a lessee. The Group has determined that the lessor retains all significant risks and rewards of ownership of the leased premises since these properties will revert to the lessor upon termination of the lease.

Determination of Lease Term of Contracts with Renewal and Termination Options - Group as a Lessee (upon adoption of PFRS 16)
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.

The renewal periods for leases of office spaces with longer non-cancellable periods are not included as part of the lease term as the renewal option requires the consent of both parties, thus, not enforceable. 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.

Determination of Significant Influence Over an Investee Company
Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control of those policies. Management has determined that by virtue of its ownership in Alsons Thermal Energy Corp. (ATEC) as of December 31, 2019 and 2018, the Group has the ability to exercise significant influence over the associate (see Note 10).

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

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

Where the fair value of certain financial assets and financial liabilities recorded in the consolidated statements of financial position cannot be derived from active markets, they are determined using internal valuation techniques using generally accepted market valuation models. The inputs to these models are taken from observable markets where possible, but where this is not feasible, a degree of judgment is required in establishing fair values. The judgments include considerations of liquidity and model inputs such as correlation and volatility for longer dated derivatives, if applicable. The fair values of the Group's financial instruments are presented in Note 24 to the consolidated financial statements.

Estimating Provision for Impairment Losses on Receivables. The Group incorporates forward-looking information in its impairment assessment. The impairment assessment includes elements of the impairment model which are considered significant judgment and estimates:

- The choice of inputs and the various formulas used in the impairment calculation;
- Determination of relationships between macroeconomic scenarios and, economic inputs, such as unemployment levels and collateral values, and the effect on the impairment model; and
- Selection of forward-looking macroeconomic scenarios and their probability weightings, to derive the economic inputs into the impairment models.

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

The aggregate amount of receivables and long-term receivables amounted to ₱4,826.77 million and ₱5,163.92 million as of December 31, 2019 and 2018 (see Notes 5 and 8), net of provision for impairment losses on receivables amounting to ₱713.89 million and ₱584.64 million as of December 31, 2019 and 2018, respectively (see Note 5).

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

The Group recognized provision for inventory losses amounting to ₱10.86 million as of December 31, 2019 and 2018. Inventories, at lower of cost and NRV and net of allowance for inventory losses, amounted to ₱2,376.59 million and ₱2,692.18 million as of December 31, 2019 and 2018, respectively (see Note 6).

Estimating Useful Lives of Property, Plant and Equipment
The Group estimates the useful life of significant parts of property, plant and equipment, except for land, is based on the period over which the assets are expected to be available for use. The estimated useful life of property, plant and equipment is reviewed periodically and is updated if expectations differ from previous estimates due to physical wear and tear, technical or commercial obsolescence and legal or other limits on the use of the assets.

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

As of December 31, 2019 and 2018, the net book value of property, plant and equipment, excluding construction in progress, amounted to ₱44,693.36 million and ₱45,435.38 million, respectively (see Note 12).

Estimating Impairment of Input VAT, CWTs and Creditable Withholding VAT, Prepaid Insurance, Other Current Assets, Property and Equipment and Other Noncurrent Assets
The Group assesses impairment on assets whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable.

The factors that the Group considers important which could trigger an impairment review include the following:
- significant underperformance relative to expected historical or projected future operating results;
- significant changes in the manner of use of the acquired assets or the strategy for overall business; and
- significant negative industry or economic trends.

An impairment loss is recognized whenever the carrying amount of an asset exceeds its recoverable amount. The estimated recoverable amount is the higher of an asset's fair value less costs to sell and value in use. The fair value less costs to sell is the amount obtainable from the sale of an asset in an arm's length transaction less the costs of disposal while value in use is the present value of estimated

future cash flows expected to arise from the continuing use of an asset and from its disposal at the end of its useful life. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the CGU to which the asset belongs.

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

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

Impairment loss related to input VAT amounting to ₱187.32 million and ₱82.59 million were recognized as of December 31, 2019 and 2018, respectively. As of December 31, 2019 and 2018, the aggregate net book values of nonfinancial assets, which include input VAT (net of allowance for impairment losses), CWTs and creditable withholding VAT, prepaid insurance, other current assets, other noncurrent assets and property and equipment amounted to ₱46,825.81 million and ₱47,900.87 million, respectively (see Notes 7, 12 and 13).

Estimating Impairment of Investment in and Advances to Associate
The Group assesses at each balance sheet date whether there is an indication that the investments in and advances to associate may be impaired. If any such indication exists, the Group estimates the investments' recoverable amounts. At each balance sheet date, the Group assesses as to whether there is any indication that previously recognized impairment losses may no longer exist or may have decreased. If such indication exists, the recoverable amounts are estimated.

The management of the Group has determined that there are no events or circumstances in 2019 and 2018 that may indicate that the carrying amounts of the investments may not be recoverable. No impairment loss on investments in associate was recognized in 2019 and 2018. The carrying values of investments in and advances to associate amounted to ₱4,715.99 million and ₱4,559.17 million as of December 31, 2019 and 2018, respectively (see Note 10).

Estimating Impairment of Goodwill
The Group performs impairment review on goodwill, annually or more frequently, if events or changes in circumstances indicate that the carrying value may be impaired. This requires an estimation of the value in use of the CGU to which goodwill is allocated. Estimating the value in use requires the Group to make an estimate of the expected future cash flows from the CGU and to make use of a suitable discount rate to calculate the present value of those future cash flows. Impairment loss on goodwill amounting to ₱40.59 million and ₱44.86 million was recognized in 2019 and 2018, respectively. The carrying value of goodwill amounted to ₱555.82 million and ₱596.41 million as of December 31, 2019 and 2018, respectively (see Note 13).

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

Cost estimates expressed at current price levels at the date of the estimate are discounted using a rate of interest ranging from 1.63% to 3.42% in 2019 and 4.78% to 7.36% in 2018 to take into account the timing of payments. Each year, the provision is increased to reflect the accretion of discount and to

accrue an estimate for the effects of inflation, with charges being recognized as accretion expense, included under “Finance costs - net” in the consolidated statements of comprehensive income. Changes in the decommissioning liability that result from a change in the current best estimate of cash flow required to settle the obligation or a change in the discount rate are added to (or deducted from) the amount recognized as the related asset and the periodic unwinding of the discount on the liability is recognized in the consolidated statements of comprehensive income as it occurs.

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

Decommissioning liability amounted to ₱765.69 million and ₱590.82 million as of December 31, 2019 and 2018, respectively (see Note 16).

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

Retirement benefit expense amounted to ₱131.86 million and ₱149.15 million in 2019 and 2018, respectively. Net retirement benefit obligation amounted to ₱935.45 million and ₱647.92 million as of December 31, 2019 and 2018, respectively (see Note 18).

Estimating Provision for Other Liabilities
The provision for other liabilities is established based on the Group’s best estimate of the amount necessary to settle future or existing obligations arising from different interpretation of laws, management incentives and other charges. As the status of the issues may change and depending on the Group’s performance, changes in these estimates could result to a change in the amount of provision. Provision for other liabilities amounted to ₱1,104.04 million and ₱1,443.07 million as of December 31, 2019 and 2018, respectively (see Note 16).

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

The Group has deferred tax assets amounting to ₱1,059.75 million and ₱901.16 million as of December 31, 2019 and 2018, respectively (see Note 21). Temporary differences for which deferred tax assets are not recognized are disclosed in Note 21 to the consolidated financial statements.

Leases - Estimating the IBR (upon adoption of PFRS 16)
The Group cannot readily determine the interest rate implicit in the lease, therefore, it uses its IBR to measure lease liabilities. The IBR is the rate of interest that the Group would have to pay to borrow over a similar term, and with a similar security, the funds necessary to obtain an asset of a similar value to the right-of-use asset in a similar economic environment. The IBR therefore reflects what the Group 'would have to pay', which requires estimation when no observable rates are available (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 subsidiary's stand-alone credit rating).

The Group's lease liabilities amounted to ₱25.98 million as of December 31, 2019 (see Note 23).

4. Cash and Cash Equivalents and Short-term Investments

Cash and Cash Equivalents

	2019	2018
Cash on hand and in banks	**₱1,204,641,302**	₱1,191,061,043
Cash equivalents	**7,112,281,794**	7,878,416,024
	₱8,316,923,096	₱9,069,477,067

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

Restricted Cash and Cash Equivalents. Restricted cash and cash equivalents amounting to ₱2,630.86 million and ₱2,559.33 million as at December 31, 2019 and 2018, respectively, which are deposited in banks and invested in money market placements, pertain to debt service accounts (DSAs) representing amounts set aside for quarterly principal and interest payments of certain long-term debt. These DSAs are maintained and replenished in accordance with the provisions of loan agreements (see Note 15).

Short-term Investments. Short-term investments or time deposits in banks and financial institutions maturing after three months but within twelve months are classified as "Short-term investments" in the consolidated statements of financial position. As of December 31, 2019 and 2018, the carrying value of short-term investments amounted to ₱675.20 million and ₱71.58 million, respectively.

Total interest income earned on cash and cash equivalents, restricted cash and cash equivalents and short-term investments amounted to ₱371.43 million and ₱314.56 million for the years ended December 31, 2019 and 2018, respectively (see Note 19).

5. Receivables

	2019	2018
Trade	**₱4,869,681,443**	₱5,301,486,273
Others	**670,981,648**	447,082,292
	5,540,663,091	5,748,568,565
Less noncurrent portion of receivables, net of discount (see Note 8)	**181,488,555**	43,765,962
	5,359,174,536	5,704,802,603
Less allowance for impairment losses	**713,890,192**	584,643,921
	₱4,645,284,344	₱5,120,158,682

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

The uncollected output VAT portion of trade receivables as of December 31, 2019 and 2018 amounted to ₱1,514.15 million and ₱1,464.18 million, respectively (see Note 14).

Trade receivables also include current portion of long-term receivables from PECO for tariff recoveries (see Note 8).

Others include receivables from CCC relating to reimbursements of WESM billing, receivable from a supplier for maintenance cost recovery, interest receivable, advances to employees, current portion of notes receivable from PECO as assistance to build a sub-transmission line and current portion of notes receivable from Orix Metro (see Note 8).

The Group provided allowance for impairment loss on its receivable from bilateral customers amounting to ₱129.25 million and ₱254.52 million in 2019 and 2018, respectively.

The roll forward analysis of allowance for impairment losses as of December 31, 2019 and 2018, which pertains to trade receivables, is presented below:

	2019	2018
Balances at beginning of year	**₱584,643,921**	₱330,120,775
Provision for impairment losses	**129,246,271**	254,523,146
Balances at end of year	**₱713,890,192**	₱584,643,921

6. Inventories

	2019	2018
Spare parts, consumables and supplies	**₱1,750,303,332**	₱1,559,994,137
Coal (see Note 25h)	**480,959,447**	954,383,058
Industrial fuel and lubricating oil	**156,190,921**	188,662,376
	2,387,453,700	2,703,039,571
Less allowance for inventory losses	**10,861,733**	10,861,733
	₱2,376,591,967	₱2,692,177,838

Allowance for inventory losses recognized as of December 31, 2019 and 2018 pertains to spare parts and supplies that the Group believes to be obsolete and non-moving.

Movements in allowance for inventory losses on inventories in 2019 and 2018 are as follows:

	2019	2018
Balances at beginning of year	**₱10,861,733**	₱10,944,836
Provision for inventory losses	–	2,434,320
Reversal of allowance and write off	–	(2,517,423)
Balances at end of year	**₱10,861,733**	₱10,861,733

Inventories charged to current operations amounted to ₱9,302.57 million and ₱11,217.57 million in 2019 and 2018, respectively.

In July 2012, CCC started to supply the coal inventories of TPC in accordance with the Energy Conversion Option as stated in the ECA between TPC and CCC (see Note 1). The Group recognized efficiency gains or losses from the ECA pertaining to the difference between the actual and agreed efficiency rate. The Group recognized gain amounting to ₱26.39 million and ₱24.37 million in 2019 and 2018, respectively (see Note 19).

7. Prepayments and Other Current Assets

	2019	2018
Input VAT (see Note 13)	**₱1,017,830,403**	₱1,098,097,478
Creditable withholding taxes and VAT	**243,038,414**	155,538,880
Advances to suppliers and contractors	**127,038,313**	145,386,239
Security deposits	**68,154,721**	55,868,295
Prepaid insurance	**50,414,237**	50,699,695
Others	**32,702,501**	46,585,766
	₱1,539,178,589	₱1,552,176,353

Unutilized input VAT pertains mainly to VAT imposed on the Group's purchases of goods and services during the construction phase and commercial operations of the power plants. These are expected to be offset against output VAT arising from the Group's net fees subject to VAT. As of December 31, 2019 and 2018, input VAT amounting to ₱321.02 million and ₱323.70 million, respectively, is classified under noncurrent assets (see Note 13).

Creditable withholding taxes represent amounts withheld from income subject to expanded withholding taxes (EWT). Creditable withholding VAT represent amounts withheld from transactions with the government.

Security deposits mainly include bill deposits for retail energy sales and revolving deposits for medical expenses incurred by employees and paid by health maintenance organizations, among others.

Others consist mainly of prepaid rent and other prepaid expenses.

8. **Long-Term Receivables**

2019

	Noncurrent Portion	**Current Portion**	**Total**
Trade Receivables			
PECO - net of discount of ₱6.0 million (see Notes 5 and 25m)	**₱38,026,295**	**₱8,258,228**	**₱46,284,523**
Other Receivables			
ORIX METRO Leasing and Finance Corporation (ORIX METRO) - net of discount of ₱6.23 million (see Note 5)	**–**	**43,765,962**	**43,765,962**
NGCP - net of discount of ₱19.85 million (see Note 5 and 12) ***ther Receivables***	**143,462,260**	**182,587,529**	**326,049,789**
	₱181,488,555	**₱234,611,719**	**₱416,100,274**

2018

	Noncurrent Portion	Current Potion	Total
Trade Receivables			
PECO (see Notes 5 and 25m)	₱–	₱113,388,620	₱113,388,620
Other Receivable			
ORIX METRO - net of discount of ₱6.23 million	43,765,962	–	43,765,962
	₱43,765,962	₱113,388,620	₱157,154,582

PECO
On August 22, 2011, ERC approved, with modification, the EPPA between PEDC and PECO. Pursuant to the requirements of the ERC, PEDC submitted on October 28, 2011 the amount of under-recoveries and the collection scheme for PECO. The amount of under-recoveries from March 26, 2011 to August 10, 2011 computed by PEDC and PECO amounted to ₱617.27 million. The whole amount was recognized as revenue in 2011 as “Net fees” in the consolidated statements of comprehensive income. The 2018 receivable was fully collected in 2019.

Pursuant to ERC Case No. 2010-097 RC ordered June 24, 2013, PEDC billed PECO for the additional tariff recoveries during the PEDC’s testing and commissioning from December 26, 2011 to March 25, 2011. The total amount of ₱55.09 million was recognized in 2019 as “Net fees” in the consolidated statements of comprehensive income and collectible over five years at a rate of ₱0.0229 per kilowatt hour. Collections in 2019 amounted to ₱1.58 million.

In October 2018, the Group has granted a fixed term financing note (the Note) to Orix Metro of ₱50.00 million, at the interest rate of 7.0156% per annum. The note will mature on April 29, 2020 (see Note 5).

9. **Material Partly-owned Subsidiaries**

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

Carrying value of material NCIs as of December 31:

	2019	2018
CEDC	**₱3,443,509,934**	₱3,192,609,001
PPHC	**1,567,841,407**	1,619,851,154

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

	2019	2018
CEDC	**₱1,019,465,880**	₱827,575,524
PPHC	**160,063,885**	146,059,519

Dividends declared allocated to material NCIs are as follows:

	2019	2018
CEDC	**₱748,000,000**	₱660,000,000
PPHC	**200,625,000**	159,430,000

The summarized financial information (before intercompany eliminations) of the subsidiaries which are not wholly-owned as of and for the years ended December 31, 2019 and 2018 are as follows:

2019	**CEDC** *(in millions)*	**PPHC** *(in millions)*
Statement of Financial Position		
Current assets	**₱5,140**	**₱1,896**
Non-current assets	**12,877**	**14,357**
Current liabilities	**4,017**	**1,875**
Non-current liabilities	**6,174**	**–**
Statement of Comprehensive Income		
Revenues	**8,578**	**1,876**
Expenses	**5,479**	**1**
Net income	**2,317**	**1,875**
Total comprehensive income	**2,270**	**1,875**
Statement of Cash Flows		
Net cash flows from (used in) operating activities	**3,278**	**(16)**
Net cash flows from (used in) investing activities	**(210)**	**1,500**
Net cash flows used in financing activities	**(2,710)**	**(1,490)**

2018	CEDC *(in millions)*	PPHC *(in millions)*
Statement of Financial Position		
Current assets	₱5,072	₱1,511
Non-current assets	13,250	14,357
Current liabilities	3,534	1,490
Non-current liabilities	7,532	–

(Forward)

	CEDC *(in millions)*	PPHC *(in millions)*
Statement of Comprehensive Income		
Revenues	₱9,728	₱1,501
Expenses	6,525	1
Net income	1,881	1,499
Total comprehensive income	1,894	1,499
Statement of Cash Flows		
Net cash flows from (used in) operating activities	2,191	(1)
Net cash flows from (used in) investing activities	(81)	750
Net cash flows used in financing activities	(3,007)	(750)

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

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

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

ATEC, which is incorporated and domiciled in the Philippines, has stake in the following companies: (i) 75% in Sarangani Energy Corporation which owns a 2x118.5 MW (gross capacity) baseload coal-fired plant in Maasim, Sarangani Province; (ii) 100% in San Ramon Power, Inc. which is developing a 120 MW baseload coal-fired plant in Zamboanga City; and (iii) 100% in ACES Technical Services Corporation. The second 118.5 MW unit in Sarangani Province declared commercial operations on October 10, 2019.

ATEC is a private entity that is not listed on any public exchange. The carrying amount of the Group's investment in ATEC as of December 31, 2019 and 2018 are as follows:

	2019	2018
Acquisition cost:		
Balances at the beginning of the year	**₱2,552,010,304**	₱2,403,662,029
Additional incidental cost related to acquisition	–	148,348,275
Balance at the end of the year	**2,552,010,304**	2,552,010,304
Accumulated share in equity income:		
Balance at beginning of the year	**315,193,692**	14,466,929
Equity in net earnings (see Note 19)	**434,318,954**	300,726,763
Balance at the end of the year	**749,512,646**	315,193,692
Dividends received	**(464,999,984)**	(187,499,994)
Carrying value of investment	**2,836,522,966**	2,679,704,002
Advances to ATEC	**1,879,463,723**	1,879,463,723
	₱4,715,986,689	₱4,559,167,725

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

	2019 **(in millions)**	2018 (in millions)
Current assets	**₱4,010.75**	₱3,940.24
Non-current assets	**28,196.62**	25,870.60
Current liabilities	**7,971.09**	6,685.46
Non-current liabilities	**16,470.12**	15,856.38
Non-controlling interests	**2,688.74**	2,538.37
Equity attributable to equity holders of the Company	**5,077.42**	4,730.63
Ownership of the Company	**50%-1**	50%-1
	2,538.71	2,365.32
Other adjustments	**297.81**	314.38
Carrying amount of the investment	**₱2,836.52**	₱2,679.70
Gross revenue	**₱5,411.39**	₱4,728.17
Operating profit	**1,302.92**	862.06
Net income	**911.68**	598.14
Ownership of the Company	**50%-1**	50%-1
	455.84	299.07
Other adjustments	**(21.52)**	1.66
Equity in net earnings	**₱434.32**	₱300.73

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

11. **Financial Asset at FVOCI**

Financial asset at FVOCI represents investment in listed shares measured at fair value. The historical cost of the said investment amounted to ₱150.00 million.

The fair value changes of the investments are recorded under "Unrealized valuation gain on financial asset at FVOCI", a separate component of "Equity" in the consolidated statements of financial position.

Movements in the carrying value of financial asset at FVOCI are as follows:

	2019	2018
Balances at beginning of year	**₱1,871,885,393**	₱2,686,610,107
Changes in fair value	**(237,773,736)**	(814,724,714)
Balances at end of year	**₱1,634,111,657**	₱1,871,885,393

Movements in the unrealized valuation gains on financial asset at FVOCI are as follows:

	2019	2018
Balances at beginning of year	**₱1,721,883,003**	₱2,536,607,717
Changes in fair value of financial asset at FVOCI shown in other comprehensive income	**(237,773,736)**	(814,724,714)
Balances at end of year	**₱1,484,109,267**	₱1,721,883,003

The Group recognized dividend income from financial asset at FVOCI amounting to ₱39.42 million and ₱32.54 million for the years ended December 31, 2019 and 2018, respectively (see Note 19).

12. Property, Plant and Equipment

2019

	Land	Boilers and Powerhouse	Buildings and Land Improvements	Electrical Distribution System	Turbine Generators and Desox System	Other Property and Equipment	Right-of-use Assets (see Note 23)	Construction-in-Progress	Total
Cost:									
Balances at beginning of year	₱790,864,615	₱45,847,603,113	₱5,486,082,474	₱6,519,866,828	₱2,055,468,644	₱4,046,493,969	₱–	₱493,869,966	₱65,240,249,609
Effect of adoption of PFRS 16	–	–	–	–	–	–	73,759,030	–	73,759,030
Additions	262,073,177	12,563,810	–	1,946,357	4,589,248	63,712,371	–	380,654,084	725,539,047
Disposals and retirement	–	–	–	–	–	(68,148,157)	–	–	(68,148,157)
Remeasurement of decommissioning liability (see Note 16)	–	143,851,376	–	–	–	–	–	–	143,851,376
Reclassification of noncurrent asset held for sale	–	–	–	1,036,026,523	–	3,195,880	–	–	1,039,222,403
Transfers	–	82,678,932	141,842,019	446,429	–	33,048,969	–	(258,016,349)	–
Other adjustments and reclassifications (see Notes 13 and 16)	–	256,601,116	(158,604,261)	48,011,583	–	172,804,341	–	(320,409,355)	(1,596,576)
Balances at end of year	1,052,937,792	46,343,298,347	5,469,320,232	7,606,297,720	2,060,057,892	4,251,107,373	73,759,030	296,098,346	67,152,876,732
Accumulated depreciation, amortization and impairment loss:									
Balances at beginning of year	19,904,390	14,378,274,316	1,423,737,331	1,408,018,109	620,402,001	1,460,665,028	–	–	19,311,001,175
Depreciation and amortization	–	1,959,231,533	221,152,912	356,042,594	91,765,033	251,506,140	37,653,568	–	2,917,351,780
Other adjustments and reclassifications (see Notes 13 and 16)	–	(594,556)	(64,033,687)	(189,100)	–	64,090,325	–	–	(727,018)
Disposals and retirement	–	–	–	–	–	(64,206,294)	–	–	(64,206,294)
Balances at end of year	19,904,390	16,336,911,293	1,580,856,556	1,763,871,603	712,167,034	1,712,055,199	37,653,568	–	22,163,419,643
Net book values	₱1,033,033,402	₱30,006,387,054	₱3,888,463,676	₱5,842,426,117	₱1,347,890,858	₱2,539,052,174	₱36,105,462	₱296,098,346	₱44,989,457,089

2018

	Land	Boilers and Powerhouse	Buildings and Land Improvements	Electrical Distribution System	Turbine Generators and Desox System	Other Property and Equipment	Construction-in-Progress	Total
Cost:								
Balances at beginning of year	₱790,864,615	₱36,182,336,124	₱4,162,462,434	₱5,836,854,309	₱2,052,533,140	₱3,943,978,245	₱12,702,013,212	₱65,671,042,079
Additions	–	91,516,789	1,667,329	723,514	1,423,031	81,355,355	737,607,006	914,293,024
Disposals and retirement	–	–	–	–	–	(6,710,232)	–	(6,710,232)
Adjustment and reclassifications (see Note 16)	–	(83,170,245)	(4,940,439)	(1,281,350,911)	–	(22,998,424)	38,133,259	(1,354,326,760)
Transfers	–	9,656,920,445	1,326,893,150	1,963,639,916	1,512,473	50,869,025	(12,983,883,511)	15,951,498
Balances at end of year	790,864,615	45,847,603,113	5,486,082,474	6,519,866,828	2,055,468,644	4,046,493,969	493,869,966	65,240,249,609
Accumulated depreciation, amortization and impairment loss:								
Balances at beginning of year	19,904,390	12,618,171,502	1,228,656,547	1,440,666,592	530,894,676	1,206,112,385	–	17,044,406,092
Depreciation and amortization	–	1,760,040,992	197,638,894	244,316,199	89,507,325	256,255,323	–	2,547,758,733
Adjustment and reclassifications (see Notes 13 and 16)	–	61,822	(2,558,110)	(276,964,682)	–	2,496,288	–	(276,964,682)
Disposals and retirement	–	–	–	–	–	(4,198,968)	–	(4,198,968)
Balances at end of year	19,904,390	14,378,274,316	1,423,737,331	1,408,018,109	620,402,001	1,460,665,028	–	19,311,001,175
Net book values	₱770,960,225	₱31,469,328,797	₱4,062,345,143	₱5,111,848,719	₱1,435,066,643	₱2,585,828,941	₱493,869,966	₱45,929,248,434

The power plant complex of TPC and the whole property, plant and equipment of CEDC and PEDC, with aggregate carrying value of ₱42,494.90 million and ₱43,266.15 million as of December 31, 2019 and 2018, respectively, have been mortgaged/pledged as security for their long-term debt totaling to ₱31,829.56 million and ₱35,365.23 million as of December 31, 2019 and 2018, respectively (see Note 15).

The PEDC Phase II expansion plant was completed and accepted in May 2018, and accordingly, the accumulated project cost amounting to ₱12,623.57 million was reclassified to the different property, plant and equipment components.

Borrowing costs, including deferred financing cost capitalized as part of construction cost amounted to nil and ₱271.23 million, net of interest income amounting to nil and ₱34.56 million, in 2019 and 2018, respectively (see Note 15).

Adjustments and reclassifications pertain to changes in the classification of certain assets, such as transmission assets from held for sale to property, plant and equipment, among others.

Noncurrent Assets Held for Sale
In 2016, the ERC issued Resolution No. 23, Series of 2016 which mandates the Generation Companies to start the disposal of transfer of their assets with transmission functions in favor of NGCP, Transmission Provider before the generation company's Renewal of its Certificate of Compliance.

To comply with the ERC Resolution, the Group's generation subsidiaries, namely PEDC, TPC and CEDC entered into an agreement with the NGCP for the transfer of the generation companies' transmission facilities which ownership was expected to be transferred to NGCP in 2018. NGCP made a deposit presented under "Accounts payable and accrued expenses" amounting to ₱126.41 million and ₱162.61 million as at December 31, 2019 and 2018, respectively (see Note 14).

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

In September 2019, due to the uncertainty of the consummation of the sale of assets to NGCP, the PEDC and TPC reclassified the transmission facilities back to property, plant and equipment at its carrying amount of ₱1,039.22 million, adjusted for depreciation in accordance with PFRS 5, *Noncurrent Assets Held for Sale and Discontinued Operations*.

In December 2019, CEDC concluded the transfer of the transmission assets with gain on sale amounting to ₱147.39 million recognized in the consolidated statement of comprehensive income.

13. **Goodwill and Other Noncurrent Assets**

a. Goodwill

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

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

2019	**PPC**	**GPRI**	**GTERC**	**Total**
Cost:				
Balances at beginning and end of year	**₱1,205,891,506**	**₱17,110,792**	**₱24,201,029**	**₱1,247,203,327**
Accumulated impairment loss:				
Balances at beginning of year	**633,684,056**	**17,110,792**	**–**	**650,794,848**
Impairment loss	**40,593,016**	**–**	**–**	**40,593,016**
Balance at end of year	**674,277,072**	**17,110,792**	**–**	**691,387,864**
	₱531,614,434	**₱–**	**₱24,201,029**	**₱555,815,463**

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

PPC

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

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

- The interest rate used to discount the net cash flows from operations is PPC's computed WACC of 10.03% and 9.66% in 2019 and 2018, respectively, using the capital asset pricing model.
- Revenues are significantly based on the rates and contracted capacity under EPPAs. Revenues are based on the energy sold at the assumed energy fee rates and pass-through fuel cost rates throughout the remaining cooperation period.
- Operating expenses are projected to increase depending on the nature of the expenses. Fuel and oil costs are based on the assumed market prices throughout the remaining cooperation period.

Based on the impairment testing, impairment loss amounting to ₱40.59 million in 2019 and ₱44.86 million in 2018 was recognized on the goodwill arising from the acquisition of PPC.

b. Other Noncurrent Assets

	2019	2018
Deposit for land acquisition	**₱348,126,408**	₱344,362,879
Input VAT - net of current portion of ₱1,017.83 million and ₱1,098.10 million in 2019 and 2018, respectively (see Note 7)	**321,016,313**	323,703,385
Software and licenses - net	**10,380,742**	23,538,444
Special deposits to NGCP	**5,098,394**	5,098,394
Prepaid rent	–	11,520,834
Others	**165,000**	165,000
	684,786,857	708,388,936
Less allowance for impairment losses on input VAT	**187,320,777**	82,592,608
	₱497,466,080	₱625,796,328

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

Input VAT
Noncurrent portion of input VAT pertains to input VAT that can be offset against output VAT beyond one year and those that will be claimed as tax credits. Additional provision for impairment loss on input VAT was recognized amounting to ₱104.73 million and ₱1.15 million in 2019 and 2018, respectively.

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

	2019	2018
Cost:		
Balance at beginning of year	**₱109,063,533**	₱106,438,377
Additions	**2,608,800**	2,625,156
Reclassifications (see Note 12)	**(9,454,637)**	–
Balance at end of year	**102,217,696**	109,063,533
Accumulated Amortization:		
Balance at beginning of year	**85,525,089**	73,911,234
Amortization	**10,999,692**	11,613,855
Reclassifications (see Note 12)	**(4,687,827)**	–
Balance at end of year	**91,836,954**	85,525,089
Net book value	**₱10,380,742**	₱23,538,444

Prepaid Rent
Prepaid rent represents advance payment for rental of land related to the power plant in Nabas, Aklan. In 2019, upon adoption of PFRS 16, the said prepaid rental was classified as right-of-use asset.

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

14. Accounts Payable and Accrued Expenses

	2019	2018
Trade payables	**₱914,025,172**	₱763,071,417
Output VAT	**1,849,888,306**	1,794,245,284
Deposit from NGCP (see Note 12)	**126,409,464**	162,613,404
Refundable deposits	**68,705,398**	64,916,402
Lease liabilities	**25,976,067**	–
Accrued expenses:		
Interest	**365,835,418**	384,220,408
Outside services	**271,878,786**	147,860,986
Remittances payable	**91,497,846**	88,308,365
Employee-related expenses	**89,946,829**	94,335,014
Regulatory fees and other charges (see Note 25e)	**70,761,482**	80,523,724
Management and professional fees	**9,814,817**	9,128,987
Payables to contractors	**6,212,868**	107,923,195
Others	**29,365,632**	31,469,881
	₱3,920,318,085	₱3,728,617,067

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

Output VAT includes operating companies' deferred output VAT on trade receivables amounting to ₱1,514.15 million and ₱1,464.18 million as of December 31, 2019 and 2018, respectively (see Note 5). Deferred output VAT pertains to output VAT on amounts billed to bilateral customers and net settlement with the PEMC, who in turn have not yet collected from their ultimate customers.

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

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

Accrued regulatory fees and other charges mainly pertain to expenses related to the benefit of host communities as required under the EPIRA (see Note 25b).

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

15. **Long-term Debt**

	2019	2018
CEDC		
Tranche A-1 Lenders		
Loans payable to local banks with interest equal to the five-year Philippine Dealing and Exchange Corporation (PDEX) treasury securities benchmark yield plus 200 basis points	**₱1,646,470,588**	₱1,942,941,176
Tranche A-2 Lenders		
Loans payable to local banks with interest equal to the seven-year PDEX treasury securities benchmark yield plus 200 basis points	**1,097,647,059**	1,295,294,118
Tranche B Lenders		
Loans payable to local banks with interest equal to the 10-year PDEX treasury securities benchmark yield plus 200 basis points	**365,882,353**	431,764,706
Tranche C Lenders		
Loans payable to local banks with interest equal to the 12-year PDEX treasury securities benchmark yield plus 200 basis points	**2,744,117,647**	3,238,235,294
	5,854,117,647	6,908,235,294
General Financing and Corporate Purpose Loan		
Loans payable to local banks with interest equal to the 12-year PDEX treasury securities benchmark yield plus 125 basis points	**920,210,526**	1,073,578,947
	6,774,328,173	7,981,814,241
PEDC (Units 1 and 2)		
Tranche A Lenders		
Loans payable to local banks with interest equal to the seven-year PDEX treasury securities benchmark yield plus 200 basis points	**2,509,911,383**	2,879,867,074
Tranche B Lenders		
Loans payable to local banks with interest equal to the 10-year PDEX treasury securities benchmark yield plus 200 basis points	**1,233,685,256**	1,415,527,884
Tranche C Lenders		
Loans payable to local banks with interest equal to the 12-year PDEX treasury securities benchmark yield plus 200 basis points	**2,212,125,286**	2,538,187,930
	5,955,721,925	6,833,582,888

(Forward)

	2019	2018
PEDC (Unit 3)		
Tranche A Lenders		
Loans payable to local banks with interest equal to the seven-year Philippine Dealing System Treasury Reference Rates (PDST-R2) treasury securities benchmark yield plus 225 basis points and 200 basis points during construction and post-construction, respectively	**₱8,589,411,765**	₱9,396,470,588
Tranche B Lenders		
Loans payable to local banks with interest equal to the 12-year PDST-R2 treasury securities benchmark yield plus 225 basis points and 200 basis points during construction and post-construction, respectively	**1,051,764,706**	1,150,588,235
	9,641,176,471	10,547,058,823
TPC		
Loans payable to local banks with interest of Philippine Dealing System Treasury Fixing Rates (PDST-F), plus 200 basis points and 175 basis points during construction and post-construction, respectively	**4,958,333,333**	5,502,777,778
GBPC		
Loans payable to local banks with interest of Philippine Dealing System Treasury Fixing Rates (PDST-R2), plus 100 basis points	**4,500,000,000**	4,500,000,000
	31,829,559,902	35,365,233,730
Less unamortized deferred financing cost	**183,632,924**	243,189,436
	31,645,926,978	35,122,044,294
Less current portion	**3,553,582,093**	3,477,964,532
	₱28,092,344,885	₱31,644,079,762

CEDC, PEDC and TPC
On June 18, 2009, CEDC entered into an Omnibus Agreement with various lenders in the aggregate principal amount of up to ₱16,000.00 million to partially finance the construction of the Power Plant. The Agreement includes Project Loan Facility Agreement, Project Accounts Agreement, Mortgage Agreement, Pledge Agreement and Assignment Agreement. Loan balance as of December 31, 2019 and 2018 amounted to ₱5,854.12 million and ₱6,908.24 million, respectively.

In March 2016, CEDC entered into term loan agreements with various lenders for a total credit facility of ₱1,500.00 million to finance CEDC's general financing and corporate requirements. Loan balance as of December 31, 2019 and 2018 amounted to ₱920.21 million and ₱1,073.58 million, respectively.

On February 26, 2010, PEDC entered into an Omnibus Agreement with various lenders in the aggregate principal amount of up to ₱14,000.00 million (the Phase I Facility) to partially finance the on-going construction of the power plant. The Agreement includes a Project Loan Facility Agreement, a Project Accounts Agreement, a Mortgage Agreement, a Pledge Agreement and an Assignment Agreement. The loan facility shall be paid within 12 years from initial advance and

PEDC shall pay interest semi-annually. Loan balance as of December 31, 2019 and 2018 amounted to ₱5,955.72 million and ₱6,833.58 million, respectively.

On March 26, 2015, PEDC entered into an Amended and Restated Omnibus Agreement (AROA) with various lenders for an additional aggregate principal amount of up to ₱11,000.00 million (the Phase II Facility) to partially finance the 1x150-MW expansion project. The AROA includes a Project Loan Facility Agreement, a Project Accounts Agreement, a Mortgage Agreement, a Pledge Agreement and an Assignment Agreement. The loan facility shall be available to PEDC for up to thirty (30) months from loan signing date and will be paid within 12 years from initial advance and PEDC shall pay interest semi-annually. Principal loan balance as of December 31, 2019 and 2018 amounted to ₱9,641.18 million and ₱10,547.06 million, respectively. The project was completed in May 2018 and the first principal payment was done in September 2018 amounting to ₱452.94 million.

On March 7, 2013, TPC entered into an Omnibus Agreement with various lenders in the aggregate principal amount of up to ₱7,000.00 million to partially finance the construction of the expansion project. The Agreement includes a Project Loan Facility Agreement, a Project Accounts Agreement, a Mortgage Agreement, and an Assignment Agreement. Loan balance as of December 31, 2019 and 2018 amounted to ₱4,958.33 million and ₱5,502.78 million, respectively.

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

As of December 31, 2019 and 2018, CEDC, PEDC and TPC are in compliance with the provisions of the Agreements.

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

	Percentage
Principal amortization	70
Balloon payment	30
Total	100

Principal repayments amounted to ₱1,207.49 million in 2019 and 2018 for CEDC, ₱1,783.74 million and ₱1,330.80 million in 2019 and 2018, respectively, for PEDC, and ₱544.45 million in 2019 and 2018 for TPC.

Interest expense, including amortization of deferred financing costs, amounted to ₱646.08 million and ₱753.23 million in 2019 and 2018, respectively, for CEDC.

Interest expense, including amortization of deferred financing cost, in connection with PEDC's Phase I Facility amounted to ₱593.09 million and ₱674.21 million in 2019 and 2018, respectively. Interest expense related to PEDC's Phase II Facility amounted to ₱657.91 and ₱718.67 million, in 2019 and 2018, respectively. In 2018, interest expense and amortization of deferred financing cost amounted to ₱271.23 million, net of interest income of ₱34.56 million from temporary investments, were capitalized as part of the project cost. The project for the Phase II facility was completed and accepted in May 2018 hence, PEDC started to recognize interest as finance costs in June 2018.

Interest on the long-term debt of TPC amounted to ₱398.41 million and ₱391.34 million in 2019 and 2018, respectively.

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

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

As of December 31, 2019 and 2018, the unamortized deferred financing cost incurred in connection with the loans amounting to ₱18.52 million and ₱38.01 million, respectively, for CEDC, ₱132.08 million and ₱166.10 million, respectively, for PEDC, and ₱14.90 million and ₱18.79 million, respectively, for TPC, were presented as deduction from the outstanding balance of the related debt.

Among others, the agreements prohibit CEDC, PEDC and TPC to amend or modify their charter documents if any such amendment or modification would have a material adverse effect; assign or otherwise transfer, terminate, amend, or grant any waiver or forbearance or exercise any election under any material provision of the agreements or project document; make any prepayment, whether voluntary or involuntary, or repurchase of any long-term debt or make any repayment of any such long-term debt other than those allowed in the agreements unless, in any such case, it shall at the option of any lender contemporaneously make a proportionate prepayment or repayment of the

principal amount then outstanding of the Lender's outstanding participation in the loan. The agreements also prohibit CEDC, PEDC and TPC to acquire by lease any property or equipment, or to acquire rights-of-way to any property, which may have a material adverse effect; enter into contract of indebtedness except those permitted under the agreement such as indebtedness incurred in the ordinary course of business; and form or have any subsidiaries, advances or investments and issue preferred shares, unless certain conditions are complied with.

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

CEDC, PEDC and TPC are in compliance with the loan covenants as of December 31, 2019 and 2018.

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

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

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

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

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

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

Amortization of deferred financing cost amounted to ₱2.15 million and ₱2.01 million in 2019 and 2018, respectively. Interest charged to operations related to this loan amounted to ₱300.40 million in 2019 and 2018, respectively (see Note 19).

As of December 31, 2019 and 2018, the Parent Company is compliant with the provisions of the loan agreement.

The movements of the deferred financing cost as follows:

	2019	2018
Balances at beginning of year	**₱243,189,436**	₱305,346,962
Amortization	**(59,556,512)**	(62,157,526)
Balances at end of year	**₱183,632,924**	₱243,189,436

16. **Provisions**

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

Breakdown of provisions for expenses is as follows:

	2019	2018
Decommissioning liability	**₱765,693,129**	₱590,816,646
Other liabilities	**1,104,044,116**	1,443,070,247
	₱1,869,737,245	₱2,033,886,893

a. Decommissioning liability

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

Movements in the decommissioning liability are as follows:

	2019	2018
Balances at beginning of year	**₱590,816,646**	₱536,150,105
Remeasurement of provisions during the year (see Note 12)	**143,851,375**	39,284,034
Accretion for the year (see Note 19)	**31,025,108**	15,382,507
Balances at end of year	**₱765,693,129**	₱590,816,646

PPC, PEDC, CEDC, TPC and GPRI reassessed the amount of decommissioning liability using a risk-adjusted rate. Accordingly, additional provision of ₱143.85 million and ₱39.28 million were recognized in 2019 and 2018, respectively.

b. Provision for Other Liabilities

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

In 2019, management reassessed the amount of provisions and recognized reversals amounting to ₱272.50 million, presented under "Other income - net" in the consolidated statements of comprehensive income (see Note 19).

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

	2019	2018
Power plant operations	**₱8,763,541,882**	₱10,815,945,224
Purchased power, distribution and wheeling charges	**1,720,047,371**	2,773,237,239
Repairs and maintenance and others	**904,532,000**	727,345,000
	₱11,388,121,253	₱14,316,527,463

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

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

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

18. **Personnel Costs**

	2019	2018
Salaries, wages and others	**₱717,934,845**	₱669,501,752
Employee benefits	**381,238,889**	405,729,154
Retirement benefit expense	**131,864,781**	149,150,577
	₱1,231,038,515	₱1,224,381,483

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

Funded Status

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

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

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

	2019	2018
Service cost	**₱91,408,959**	₱104,751,773
Net interest cost	**40,455,821**	44,398,804
	₱131,864,780	₱149,150,577

Remeasurement effects to be recognized in consolidated other comprehensive income:

	2019	2018
Actuarial gains (losses) on defined benefit obligation	**(₱370,171,403)**	₱161,358,954
Return on assets excluding amount included in net interest cost	**3,612,784**	(922,307)
	(₱366,558,619)	₱160,436,647

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

	2019	2018
Present value of defined benefit obligation	**₱1,312,593,267**	₱846,527,727
Fair value of plan assets	**(377,147,900)**	(198,609,946)
Retirement benefit obligation	**₱935,445,367**	₱647,917,781

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

	2019	2018
Balances at beginning of year	**₱846,527,727**	₱925,206,455
Current service cost	**91,408,959**	104,751,773
Interest cost	**59,980,797**	50,761,635
Benefits paid:		
Paid out of Group's plan assets	**(55,108,257)**	(61,918,480)
Paid out of Group's operating funds	**(387,362)**	(10,914,702)
Remeasurement losses(gains) resulting from:		
Changes in financial assumptions	**360,549,815**	(137,811,464)
Changes in demographic assumptions	**(11,400,561)**	–
Experience adjustments	**21,022,149**	(23,547,490)
Balances at end of year	**₱1,312,593,267**	₱846,527,727

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

	2019	2018
Balances at beginning of year	**₱198,609,947**	₱38,292,571
Interest income included in net interest cost	**19,524,976**	6,362,831
Remeasurement gain (loss) on return on plan assets	**3,612,784**	(922,307)
Contribution to the plan assets	**210,508,450**	216,795,331
Benefits paid - current year retirement	**(55,108,257)**	(61,918,480)
Balances at end of year	**₱377,147,900**	₱198,609,946
Actual return on plan assets	**₱23,137,760**	₱5,440,524

The fair value of plan assets are comprised of 8.69% cash and cash equivalents, 73.59% investment in government securities, 15.12% investment in quoted securities, 1.80% investment in debt and other securities and 0.80% miscellaneous receivables in 2019.

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

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

	2019	2018
Salary increase rate	**8.00%**	7.00%
Discount rates	**4.71% - 5.12%**	7.31% - 7.59%
Mortality rate	**2017 Philippine Intercompany Mortality Table**	2017 Philippine Intercompany Mortality Table
Disability rate	**1952 Disability Study, Period 2, Benefit 5**	1952 Disability Study, Period 2, Benefit 5
Turnover rate	**A scale ranging from 6% at age 18 to 0% at age 60**	A scale ranging from 8% at age 18 to 0% at age 60

The sensitivity analysis below has been determined based on reasonable possible changes of each significant assumption on the defined benefit obligation as of December 31, 2019 and 2018, assuming all other assumptions were held constant:

	Increase (Decrease)	**2019**	2018
Discount rates	+1%	**(₱120,849,716)**	(₱62,910,990)
	-1%	**142,019,247**	72,731,377
Future salary increase rate	+1%	**142,662,469**	77,425,459
	-1%	**(123,978,118)**	(68,096,268)

The Group plans to fund the retirement liability for the total of the amortization of the past service cost and the normal cost. The amortization of the past service cost is determined based on the average expected future service years. The Group expects to contribute ₱148.09 million to the retirement plan in 2020.

The average duration of the defined benefit obligation as of December 31, 2019 and 2018 is 10 to 20 years and 10 to 17 years, respectively.

Shown below is the maturity analysis of the undiscounted benefit payments:

	2019	2018
1 year or less	**₱75,683,924**	₱85,092,937
More than 1 year to 5 years	**533,321,926**	406,955,983
More than 5 years to 10 years	**591,787,404**	555,849,108
More than 10 years to 15 years	**892,514,629**	608,784,341
More than 15 years to 20 years	**1,456,608,464**	1,030,596,828
More than 20 years	**3,244,032,829**	2,777,819,002

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

	2019	2018
Finance costs - net:		
Interest expense (see Note 15)	**₱2,601,942,871**	₱2,538,297,302
Interest income (see Note 4)	**(371,430,118)**	(314,564,150)
Accretion of decommissioning liability (see Note 16)	**31,025,108**	15,382,507
Accretion of lease liabilities (see Note 23)	**3,132,4110**	–
Amortization of discount on long-term receivables (see Note 8)	**(232,698)**	(506,120)
	₱2,264,437,574	₱2,238,609,539

	2019	2018
Other income - net:		
Equity in net earnings of an associate (see Note 10)	**₱434,318,954**	₱300,726,763
Reversal of previously recognized provision (see Note 16)	**272,499,255**	–
Gain (loss) on disposal of property and equipment	**148,769,809**	(514,274)
Claims from contractors	**89,689,313**	118,042,614
Maintenance cost recoveries	**45,653,906**	–
Dividends (see Note 11)	**39,419,088**	32,542,310
Service fees	**35,617,110**	126,240,910
Efficiency gain (see Note 6)	**26,391,560**	24,373,632
Consideration fee	**25,500,000**	–
Foreign exchange gain (loss) - net	**(12,536,624)**	26,232,915
Sale of scrap, sludge and other materials	**6,472,157**	11,325,948
Recovery from insurance	**3,566,830**	38,606
Others - net	**19,377,983**	19,785,921
	₱1,134,739,341	₱658,795,345

Claims from contractors in 2019 and 2018 were collected on October 8, 2019 and on December 5, 2018, respectively.

Maintenance cost recoveries represent the amount of rebates billed to a coal supplier.

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

Consideration fee pertains to proceeds in exchange for the temporary assignment of the PEDC's right to supply power to GESC to Central Azucarera de Bais for the latter's testing and commissioning of its own power plant.

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

20. **Related Party Transactions**

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

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

		Transactions During the Year		Outstanding Balances				
Category	Year	Revenues	Costs	Receivables (see Note 5)	Accounts Payable and Accrued Expenses (see Note 14)	Advances from Shareholder	Terms	Conditions
Non-controlling shareholder:								
VIGC (see Notes 20a and e)	**2019**	**₱–**	**₱–**	**₱–**	**₱–**	**₱79,715,671**	Noninterest- bearing; for future stock subscription upon filing of application and approval of SEC	Unsecured
	2018	₱–	₱–	₱–	₱–	₱74,010,046		
Under common control:								
MERALCO (see Note 20b)	**2019**	**1,783,813,506**	**63,877**	**339,523,724**	**–**	**–**	Noninterest- bearing; due within one year; to be settled in cash	Unsecured; no impairment
	2018	2,322,615,531	5,006,078	444,772,656	–	–		
Smart Communications, Inc (SMART; see Note 20d)	**2019**	**–**	**4,262,252**	**–**	**410,622**	**–**	Noninterest- bearing; due within one year; to be settled in cash	Unsecured
	2018	–	3,949,193	–	371,472	–		
Philippine Long Distance Telephone Company (PLDT; see Note 20c)	**2019**	**–**	**4,170,559**	**–**	**125,357**	**–**	Noninterest- bearing; due within one year; to be settled in cash	Unsecured
	2018	–	3,955,139	–	310,648	–		
	2019	**₱1,783,813,506**	**₱8,496,688**	**₱339,523,724**	**₱535,979**	**₱79,715,671**		
	2018	₱2,322,615,531	₱12,910,410	₱444,772,656	₱682,120	₱74,010,046		

a. Advances from stockholders pertain to cash received from VIGC for additional advances for future stock subscription to LPCI. In 2018, upon filing and approval of LPCI's increase in authorized capital stock, advances from the shareholder amounting to ₱114.49 million was converted to equity. In December 2019 and 2018, VIGC infused additional advances amounted to ₱5.7 million and ₱39.17 million, respectively. As of December 31, 2019 and 2018, the additional advances for future stock subscription was not yet classified to equity pending filing of the LPCI's application for the increase of authorized capital stock with SEC.

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

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

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

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

	2019	2018
Salaries and wages	**₱228,763,674**	₱197,324,459
Allowances and benefits	**122,451,250**	147,265,416
	₱351,214,924	₱344,589,875

21. Income Taxes

The provision for current income tax pertains to the RCIT for PEDC, GTERC, THC and CEDC, and MCIT for the Parent Company, GESC, PPC and TPC for the year ended December 31, 2019. For the year ended December 31, 2018, the provision for current income tax pertains to RCIT for the Parent Company, GPRI, TPC, CEDC, PEDC, GTERC and GESC, and MCIT for PPC and THC.

In 2019, GPRI, APVI, GFPHI, GRPHC, GLEDC, GHPC, MEDC, CACI, LPCI and PPHC did not have provisions for current income tax due to their gross loss and net taxable loss positions. In 2018, APVI, GFPHI, GRPHC, GLEDC, GHPC, MEDC, CACI, LPCI and PPHC did not have provisions for current income tax due to their gross loss and net taxable loss positions.

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

	2019	2018
Income tax at statutory tax rate	**₱1,502,834,117**	₱1,391,397,335
Additions to (reductions in) income tax resulting from:		
Taxable income under ITH	**(163,237,709)**	(164,658,812)
Income exempt from income tax or subject to final tax at a lower rate and nondeductible expenses	**(153,817,295)**	(20,976,159)
Benefit from availment of optional standard deduction	**(113,265,115)**	(93,408,859)
Equity in net earnings of an associate	**(130,295,687)**	(90,218,028)
Changes in unrecognized deferred income tax assets on NOLCO and MCIT	**148,123,264**	85,393,090
Impairment loss on goodwill	**12,177,905**	13,456,716
Others	**92,759**	–
	₱1,102,612,239	₱1,120,985,283

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

	2019	2018
Deferred income taxes recognized in profit or loss:		
Deferred income tax assets:		
Retirement benefit obligation and unamortized past service cost	**₱241,926,541**	₱203,932,223
Provisions and accrued expenses	**231,027,345**	172,079,594
Decommissioning liability	**220,459,978**	114,666,319
Allowance for impairment losses	**114,735,477**	71,429,312
Net capitalized commissioning income	**83,228,743**	103,044,340
Allowance for probable losses on input VAT	**56,196,234**	24,777,783
Lease liability	**19,832,356**	–
Unamortized discount on receivables	**7,755,680**	1,870,211
MCIT	**1,955,761**	8,452,326
Unrealized foreign exchange losses	**1,668,337**	504,350
NOLCO	**75,013**	65,948,262
	978,861,465	766,704,720

	2019	2018
Deferred income tax liabilities:		
Capitalized dismantling costs	**₱143,181,319**	₱67,857,874
Unamortized deferred financing cost	**55,089,877**	23,125,643
Capitalized borrowing cost	**50,317,885**	52,762,478
Net costs capitalized during construction	**27,602,325**	32,620,929
Capitalized deferred financing cost	**23,489,736**	6,280,401
Right-of-use asset	**19,055,304**	–
Unrealized foreign exchange gains	–	2,625,692
	318,736,446	185,273,017
Deferred income tax asset (liability) recognized in other comprehensive income:		
Retirement benefit obligation	**80,886,110**	(21,393,246)
Net deferred income tax assets	**₱741,011,129**	₱560,038,457

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

	2019	2018
Deferred income taxes recognized in profit or loss:		
Deferred income tax assets:		
Decommissioning liability	**₱–**	₱58,828,515
Retirement benefit obligation and unamortized past service cost	–	38,493,784
Provisions and accrued expenses	–	32,598,255
Allowance for impairment losses	–	4,532,282
	–	134,452,836
Deferred income tax liabilities:		
Fair value adjustment on acquisition	**108,265,548**	127,950,193
Unamortized deferred financing cost	–	49,831,188
Capitalized deferred financing cost	–	18,328,740
Capitalized dismantling costs	–	49,804,720
Net capitalized commissioning costs	–	14,568,879
Unrealized forex gains	–	2,450,923
	108,265,548	262,934,643
Deferred income tax liability recognized in other comprehensive income:		
Retirement benefit obligation	–	(5,190,521)
Net deferred income tax liability	**(₱108,265,548)**	(₱133,672,328)

As of December 31, 2019 and 2018, the Group has unrecognized deferred income tax assets from certain subsidiaries. These deferred income tax assets were not recognized as management believes that it is not likely that the tax benefits of such differences would be realized in the foreseeable future. The details of the Group's unrecognized deferred tax asset on deductible temporary differences are as follows:

	2019	2018
NOLCO	**₱210,376,664**	₱81,500,059
Allowance for impairment losses:		
Receivables	**41,011,259**	41,011,259
Property, plant and equipment	**900,770**	1,304,917
MCIT	**16,411,716**	–
Retirement benefit obligation	**7,894,022**	6,724,568
Decommissioning liability	**5,847,742**	3,750,160
Accrued expenses	**1,556,833**	966,111
Unrealized foreign exchange loss	**33,062**	282,756
Unamortized past service cost	**–**	1,178,904
	₱284,032,068	₱136,718,734

22. Capital Management

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

The Group manages its capital structure and makes adjustments to it, in light of changes in economic conditions. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. No changes were made in the objectives, policies or processes during the years ended December 31, 2019 and 2018.

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

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

In 2019 and 2018, the Group was able to comply with the loan covenants.

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

	2019	2018
Capital stock	**₱1,924,020,965**	₱1,924,020,965
Additional paid-in capital	**19,550,064,658**	19,550,064,658
Retained earnings	**2,904,323,124**	2,755,909,762
Long-term and short-term debts	**31,645,926,978**	35,122,044,294
	₱56,024,335,725	₱59,352,039,679

23. Leases

The Parent Company has outstanding lease contracts with Federal Land, Inc. for the lease of its corporate office located at GT Tower International's 22nd floor which commenced on August 1, 2018 and expiring on July 31, 2020, and 19th floor which commenced on January 1, 2018 and expiring on December 31, 2020.

GESC and CEDC has outstanding lease contracts with MBTC for the lease of its corporate office located at the 15th floor of MBTC Plaza in Fuente, Cebu, commencing on May 1, 2017 and June 1, 2018, respectively, and expiring on April 30, 2020 and May 31, 2021, respectively. Rent increases by 5% annually starting at the year of commencement of the lease. The lease contracts are renewable at the option of GESC and CEDC, on such terms and conditions mutually acceptable to both parties.

The Group also has certain leases of office equipment of low value and leases of other equipment with less than 12 months lease term. The Group applies 'lease of low-value assets' and 'short-term leases' recognition exemption for these leases.

The following are the amounts recognized in the consolidated statement of comprehensive income during the period:

	2019
Depreciation expense of right-of-use assets included in property and equipment (see Note 12)	₱37,653,568
Interest expense on lease liabilities	3,132,411
Expenses relating to low-value assets and short-term leases (included in cost and expenses)	13,077,978
As at December 31, 2019	₱53,863,957

Set out below is the roll-forward analysis of lease liabilities (included under "Accounts Payable and Accrued Expenses"):

	2019
As at January 1, 2019 (see Note 2)	₱60,488,197
Accretion of interest	3,132,411
Lease payments	(37,644,541)
As at December 31, 2019	₱25,976,067

Shown below is the maturity analysis of the undiscounted lease payments:

	2019
Within one (1) year	₱26,805,778
After one (1) year but not more than five (5) years	–
	₱26,805,778

Prior to adoption of PFRS 16, the future minimum lease payments under the non-cancellable operating lease are as follows:

	2018
Within one (1) year	₱37,644,541
After one (1) year but not more than five (5) years	26,805,778
	₱64,450,319

Rent expense related to the lease contract for the year ended 2018 amounted to ₱37.0 million.

24. **Financial Instruments**

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

The carrying values of the Group's financial assets and liabilities per category are as follows:

	2019		
	Financial assets at Amortized Cost	**Financial Asset at FVOCI**	**Financial Liabilities at Amortized Cost**
Cash and cash equivalents[1]	**₱8,315,896,201**	**₱–**	**₱–**
Restricted cash and cash equivalents	**2,630,856,951**	**–**	**–**
Short-term investments	**675,201,026**	**–**	**–**
Receivables[2]	**4,154,829,705**	**–**	**–**
Security and special deposits	**56,235,946**	**–**	**–**
Financial asset at FVOCI	**–**	**1,634,111,657**	**–**
Accounts payable and accrued expenses[3]	**–**	**–**	**₱1,891,703,902**
Lease liabilities	**–**	**–**	**25,976,067**
Dividends payable	**–**	**–**	**3,495,478,850**
Long-term debt[4]	**–**	**–**	**40,225,225,403**
	₱15,833,019,829	**₱1,634,111,657**	**₱45,638,384,222**

[1]*Excluding cash on hand*
[2]*Excluding business related advances*
[3]*Excluding lease liability, payables to employees and statutory payables, and regulatory fees and other charges*
[4]*Including future interest*

	2018		
	Financial Assets at Amortized Cost	Financial Asset at FVOCI	Financial Liabilities at Amortized Cost
Cash and cash equivalents[1]	₱9,068,450,172	₱	₱–
Restricted Cash	2,559,334,649	–	–
Short-term investments	71,579,824	–	–
Receivables[2]	4,621,734,455	–	–
Security and special deposits	47,183,673	–	–
Financial asset at FVOCI	–	1,871,885,393	–
Accounts payable and accrued expenses[3]	–	–	1,765,039,434
Dividends payable	–	–	3,361,369,500
Long-term debt[4]	–	–	46,353,085,169
	₱16,368,282,773	₱1,871,885,393	₱51,479,494,103

[1]*Excluding cash on hand*
[2]*Excluding business related advances*
[3]*Excluding, payables to employees and statutory payables, and regulatory fees and other charges*
[4]*Including future interest*

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

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

Equity Price Risk
Equity price risk is such risk where the fair values of investments in quoted equity securities could decrease as a result of changes in the levels of equity indices and the value of individual stocks. The

Group is exposed to equity securities price risk because of financial asset at FVOCI held by the Parent Company.

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

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

	Percentage change in PSEi	Sensitivity to equity
2019	**Increase by 14.31%**	**₱76,909,279**
	Decrease by 14.31%	**(76,909,279)**
2018	Increase by 24.73%	₱199,022,848
	Decrease by 24.73%	(199,022,848)

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

The table below shows the aging analysis of past due but not impaired financial assets per class that the Group held as of December 31, 2019 and 2018. A financial asset is past due when a counterparty has failed to make a payment when contractually due.

2019

	Neither	Past due but not impaired					
	past due nor impaired	**Less than 30 days**	**31 to 60 days**	**61 to 90 days**	**More than 91 days**	**Impaired**	**Total**
Cash and cash equivalents[1]							
Unrestricted	**₱8,315,896,201**	**₱–**	**₱–**	**₱–**	**₱–**	**₱–**	**₱8,315,896,201**
Restricted	**2,630,856,951**	**–**	**–**	**–**	**–**	**–**	**2,630,856,951**
Short term investment	**675,201,026**	**–**	**–**	**–**	**–**	**–**	**675,201,026**
Receivables[2]							
Trade							
Short-term	**2,149,791,773**	**319,149,868**	**14,649,623**	**8,868,133**	**236,912,204**	**706,523,884**	**3,435,895,485**
Long-term	**44,027,634**	**–**	**–**	**–**	**–**	**–**	**44,027,634**
Long-term nontrade receivable	**151,383,214**	**–**	**–**	**–**	**–**	**–**	**151,383,214**
Others	**334,156,797**	**14,434,932**	**4,454,318**	**36,599,834**	**126,511,183**	**7,366,308**	**523,523,372**
Security and special deposits	**56,235,946**	**–**	**–**	**–**	**–**	**–**	**56,235,946**
Financial asset at FVOCI	**1,634,111,657**	**–**	**–**	**–**	**–**	**–**	**1,634,111,657**
	₱15,991,661,199	**₱333,584,800**	**₱19,103,941**	**₱45,467,967**	**₱363,423,387**	**₱713,890,192**	**₱17,467,131,486**

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

2018

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

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

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

The table below shows the credit quality by class of financial assets based on the Group's rating system as of December 31, 2019 and 2018:

2019

	Neither Past Due Nor Impaired				
	High Grade	**Standard Grade**	**Past Due but not Impaired**	**Impaired**	**Total**
Cash and cash equivalents[1]					
Unrestricted	**₱8,315,896,201**	**–**	**–**	**–**	**₱8,315,896,201**
Restricted	**2,630,856,951**	**–**	**–**	**–**	**2,630,856,951**
Short term investments	**675,201,026**	**–**	**–**	**–**	**675,201,026**
Receivables[2]					
Trade					
Short-term	**2,149,791,773**	**–**	**579,579,828**	**706,523,884**	**3,435,895,485**
Long-term	**44,027,634**	**–**	**–**	**–**	**44,027,634**
Long-term nontrade Receivable	**151,383,214**	**–**	**–**	**–**	**151,383,214**
Others	**328,062,213**	**6,094,584**	**182,000,267**	**7,366,308**	**523,523,372**
Security and special deposits		**56,235,946**	**–**	**–**	**56,235,946**
Financial asset at FVOCI	**1,634,111,657**	**–**	**–**	**–**	**1,634,111,657**
	₱15,929,330,669	**₱62,330,530**	**761,580,095**	**713,890,192**	**17,467,131,486**

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

2018

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

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

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

The following are the details of the Group's assessment of ECLs:

General Approach

- *Cash and Cash equivalents and Short-Term Investments*. As of December 31, 2019 and 2018, the ECL relating to the cash and cash equivalents, and restricted cash and cash equivalents of the Group is minimal as these are deposited in reputable banks which have good bank standing, and are considered to have lower credit risk.

Simplified Approach

- *Receivables (i.e., Trade, Interest Receivable and Others)*. The Group applied the simplified approach under PFRS 9, using a 'provision matrix', in measuring expected credit losses which uses a lifetime expected loss allowance for receivables. The expected loss rates are based on the payment profiles of revenues/sales over a period of at least 24 months before the relevant reporting date and the corresponding historical credit losses experienced within this period. The historical loss rates are adjusted to reflect current and forward-looking information on

macroeconomic factors affecting the ability of the customers/counterparties to settle the receivables. The Group has identified the GDP, CPI and unemployment rate in the locations in which it sells its services to be the most relevant factors, and accordingly adjusts the historical loss rates based on expected changes in these factors.

No impairment losses resulted from performing collective impairment test, due to the past experience of the Group of realizing receivables within the credit period which help reduce the Group's credit risk exposure in case of default by the customers. As of December 31, 2019 and 2018, the allowance for impairment losses pertain only to individually impaired accounts amounting ₱713.89 million and ₱584.64 million, respectively.

The table below shows the financial assets per stage of allocation and by credit risk rating grades:

	2019			
	Stage 1 12-month ECL	**Stage 2 Lifetime ECL**	**Stage 3 Lifetime ECL**	**Total**
High grade	**₱13,735,511,262**	**₱2,193,819,407**	**₱–**	**₱15,929,330,669**
Standard grade	**–**	**823,910,625**	**–**	**823,910,625**
Default	**–**	**–**	**713,890,192**	**713,890,192**
Gross carrying amount	**₱13,735,511,262**	**3,017,730,032**	**713,890,192**	**17,467,131,486**
Loss allowance	**–**	**–**	**(713,890,192)**	**(713,890,192)**
Carrying amount	**₱13,735,511,262**	**₱3,017,730,032**	**₱–**	**₱16,753,241,294**

	2018			
	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Total
High grade	₱13,806,573,426	₱2,617,736,791	₱–	₱16,424,310,217
Standard grade	–	1,231,214,028	–	1,231,214,028
Default	–	–	584,643,921	584,643,921
Gross carrying amount	₱13,806,573,426	3,848,950,819	584,643,921	18,240,168,166
Loss allowance	–	–	(584,643,921)	(584,643,921)
Carrying amount	₱13,806,573,426	₱3,848,950,819	₱–	₱17,655,524,245

Liquidity Risk

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

The table below summarizes the maturity profile of the Group's financial liabilities as of December 31, 2019 and 2018 based on contractual undiscounted payments. The tables also analyze the maturity profile of the Group's financial assets used for liquidity management.

2019

	On demand	Within 1 year	1 to 5 years	More than 5 years	Total
Cash and cash equivalents[1]	**₱1,203,614,407**	**₱7,112,281,794**	**₱–**	**₱–**	**₱8,315,896,201**
Restricted Cash	**2,630,856,951**	**–**	**–**	**–**	**2,630,856,951**
Short-term investments	**–**	**675,201,026**	**–**	**–**	**675,201,026**
Receivables[2]	**1,475,470,287**	**2,483,948,570**	**195,410,848**	**–**	**4,154,829,705**
Security and special deposits	**56,235,946**	**–**	**–**	**–**	**56,235,946**
Financial asset at FVOCI	**1,634,111,657**	**–**	**–**	**–**	**1,634,111,657**
Financial assets	**7,000,289,248**	**10,271,431,390**	**195,410,848**	**–**	**₱17,467,131,486**
Accounts payable and accrued expenses[3]	**–**	**1,891,703,902**	**–**	**–**	**1,891,703,902**
Lease liabilities	**–**	**25,976,067**	**–**	**–**	**25,976,067**
Dividends payable	**–**	**3,495,478,850**	**–**	**–**	**3,495,478,850**
Long-term debt:					
Principal	**–**	**3,605,673,828**	**17,535,141,836**	**10,688,744,238**	**31,829,559,902**
Future interest	**–**	**1,956,358,655**	**4,891,684,625**	**1,547,622,221**	**8,395,665,501**
Financial liabilities	**–**	**10,975,191,302**	**22,426,826,461**	**12,236,366,459**	**45,638,384,222**
Net exposure	**₱7,000,289,248**	**(₱703,759,912)**	**(₱22,231,415,613)**	**(₱12,236,366,459)**	**(₱28,171,252,736)**

[1]*Excluding cash on hand*
[2]*Excluding business related advances*
[3]*Excluding lease liability, payables to employees and statutory payables, and regulatory fees and other charges*

2018

	On demand	Within 1 year	1 to 5 years	More than 5 years	Total
Cash and cash equivalents[1]	₱1,190,034,148	₱7,878,416,024	₱–	₱–	₱9,068,450,172
Restricted Cash	2,559,334,649	–	–	–	2,559,334,649
Short-term investments	–	71,579,824	–	–	71,579,824
Receivables[2]	1,500,147,970	3,071,586,485	50,000,000	–	4,621,734,455
Security and special deposits	47,183,673	–	–	–	47,183,673
Financial asset at FVOCI	1,871,885,393	–	–	–	1,871,885,393
Financial assets	7,168,585,833	11,021,582,333	50,000,000	–	18,240,168,166
Accounts payable and accrued expenses[3]	–	1,765,039,434	–	–	1,765,039,434
Dividends payable	–	3,361,369,500	–	–	3,361,369,500
Long-term debt:					
Principal	–	3,535,673,828	19,189,620,446	12,639,939,457	35,365,233,731
Future interest	–	2,209,632,434	6,410,963,101	2,367,255,903	10,987,851,438
Financial liabilities	–	10,871,715,196	25,600,583,547	15,007,195,360	51,479,494,103
Net exposure	₱7,168,585,833	₱149,867,137	(₱25,550,583,547)	(₱15,007,195,360)	(₱33,239,325,937)

[1]*Excluding cash on hand*
[2]*Excluding business related advances*
[3]*Excluding, payables to employees and statutory payables, and regulatory fees and other charges*

As of December 31, 2019 and 2018, the net financial assets amounting to ₱17,467.13 million and ₱18,240.17 million, respectively, may be used to meet the Group's liquidity needs. Net financial assets exclude uncollected VAT on receivables from sales of power and other services.

Interest Rate Risk

Interest rate risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Group's exposures to the risk of changes in market interest rate relates primarily to its long-term debt obligations with variable interest rates. The Group's loans bear fixed interest rates subject to repricing after a minimum of five years for CEDC and PEDC and seven years for TPC. In June 2019 and April 2018, interest rates of CEDC – Tranche B and TPC loans, respectively, were repriced.

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

	Increase (decrease) in basis points	**Effect on income before income tax**
2019	**20**	**(₱61,879,263)**
	(20)	**61,879,263**

	Increase (decrease) in basis points	Effect on income before income tax
2018	2	(₱414,131)
	(2)	414,131

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

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

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

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

	2019		2018	
	Original Currency (in $)	**Translated (in ₱)**	Original Currency (in $)	Translated (in ₱)
Financial asset				
Cash and cash equivalents	**6,305,267**	**319,954,458**	7,108,065	374,765,615
Financial liability				
Trade payable	–	–	1,929,109	101,710,327
Net exposure	**6,305,267**	**319,954,458**	5,178,956	273,055,288

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

	Change in exchange rates in peso against US dollar	Sensitivity to income before income tax
2019	**Strengthens by 2.06%**	**₱12,963,629**
	Weakens by 2.06%	**(12,963,629)**
2018	Strengthens by 0.51%	₱2,620,552
	Weakens by 0.51%	(2,620,552)

Fair Value of Financial Instruments
The following table sets forth an analysis of financial asset and financial liability whose carrying values do not approximate their fair values as of December 31, 2019 and 2018:

	Carrying Amount		Fair Value	
	2019	2018	**2019**	2018
Financial Assets:				
Long-term trade receivables	**₱38,026,294**	₱–	**₱38,026,294**	₱–
Long-term nontrade receivables	**143,462,260**	43,765,962	**143,462,260**	43,765,962
Financial Liability:				
Long-term debt	**31,645,926,978**	35,121,541,517	**33,535,555,542**	33,961,279,920

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

Long-term receivables
The fair value, which is also the carrying value, is based on the discounted value of the future cash flows using the prevailing interest rate of 4.06% and 3.66% in 2019, for trade receivables and nontrade receivables, respectively; and 6.89% in 2018.

Long-Term Debt (Bearing Variable Interest)
The carrying amount of long-term debt approximates their fair values because of recent and quarterly re-pricing based on current market rates.

Long-Term Debt (Bearing Fixed Interest)
The estimated fair value is based on the discounted value of future cash flows using the prevailing interest rate ranging from 3.10% to 6.70% and 4.64% to 7.11% in 2019 and 2018, respectively.

The following financial assets and financial liabilities approximate their values as of December 31, 2019 and 2018:

Cash and Cash Equivalents, Short-term Investments, Receivables and Security and Special Deposits
The carrying amounts of cash and cash equivalents, short-term investments, receivables and marginal deposits approximate their fair values due to the short-term maturity of these financial instruments.

Financial Asset at FVOCI
The financial asset at FVOCI is carried at fair value. Financial asset at FVOCI is based on the quoted market bid prices at the close of business on the reporting date.

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

As of December 31, 2019 and 2018, the Group has quoted financial asset at FVOCI amounting to ₱1,634.11 million and ₱1,871.89 million, respectively, which is categorized under Level 1 in the fair value hierarchy.

In 2019 and 2018, there were no transfers between Level 1 and Level 2 fair value measurements, and no transfers into and out of Level 3 fair value measurements.

25. **Other Matters**

a. Business Risks

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

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

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

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

b. EPIRA

Republic Act No. 9136, the EPIRA, which became effective in 2002, and the covering Implementing Rules and Regulations (IRR) provide for significant changes in the power sector, which include, among others:

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

The law also requires public listing of not less than 15% of common shares of existing generation and distribution companies within five (5) years from the effectivity of the EPIRA. New generation and distribution companies that started after the effectivity of the EPIRA shall implement their respective public offerings not later than five (5) years from the issuance of their certificate of compliance. It provides cross ownership restrictions between transmission and

generation companies and between transmission and distribution companies, and a cap of 50% of its demand that a distribution utility is allowed to source from an associated company engaged in generation except for contracts entered into prior to the effectivity of the EPIRA.

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

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

c. WESM

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

The Group's spot sales to WESM amounted to ₱3,098.84 million and ₱2,503.23 million in 2019 and 2018, respectively. Also, purchased power from the WESM combined for replacement power and house-load amounted to ₱1,013.47 million and ₱1,066.52 million in 2019 and 2018, respectively, and is included under "Purchased power, distribution and wheeling charges" account in the "Power plant operations and maintenance costs" section in the consolidated statements of comprehensive income (see Note 17).

d. Clean Air Act

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

e. Energy Regulation (ER) 1-94

Based on ER 1-94 and the IRR of the EPIRA, generation companies are mandated to provide benefits to its host communities, equivalent to ₱0.01 per kWh of energy generated and sold. The Operating Subsidiaries accrue the required benefits to their host community (included under "Accounts payable and accrued expenses" account in the consolidated statements of financial position) prospectively from the date of effectivity of ER 1-94. Such amount accrued is remitted to the trust account of the DOE upon their audit. Total accrued benefits amounted to ₱70.76 million and ₱80.52 million as of December 31, 2019 and 2018, respectively (see Note 14).

f. Contingencies

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

g. Supply and Equipment Loan Agreement

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

h. Long-term Coal Supply Agreements (CSA)

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

PEDC

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

CEDC

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

TPC

Supplier	Coal Type	Contract Duration	Price Basis	Quantity per Year
Semirara Mining and Power Corporation	Local	2019	New C Index with Forex	180,000 MT

In view of expiring contracts in 2019 and to have additional coal sources, the respective operating plants have also undertaken spot transactions for trial shipments of prospective long-term coal supply. In 2019, the TPC renewed its CSA with Semirara. TPC shall purchase a total volume of 130,000 MT (+/-) 10% of coal for the period March 1, 2019 to February 29, 2020.

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

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

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

j. Equity

i. *Capital Stock*

The Group has an outstanding capital stock of 1,924,020,965 shares at a par value of ₱1.00 per share as of December 31, 2019 and 2018.

ii. *Dividends*

In December 2019 and November 2018, the BOD of the respective companies, including the Parent Company, approved the declaration of cash dividends to the stockholders of records as of December 31, 2019 and 2018, respectively, payable within one year. The dividends are payable in the following year.

Below are the details of the cash dividend declaration:

	2019		2018	
	Amount	**₱/share**	Amount	₱/share
GBPC	**₱2,500,000,000**	**₱1.30**	₱2,500,000,000	₱1.30
CEDC	**1,700,000,000**	**306.64**	1,500,000,000	270.56
PPHC	**1,875,000,000**	**0.86**	1,490,000,000	0.69
GFPHI	**942,000,000**	**188.40**	830,000,000	166.00

The balance of retained earnings includes the accumulated equity in net earnings of the subsidiary and associates amounting to ₱2,395.93 million and ₱2,354.60 million as at December 31, 2019 and 2018, respectively. Such amounts are not available for distribution until such time that the Parent Company receives the dividends from the subsidiary and associates.

k. Long-Term Notes Receivable

Long-term notes receivable includes PEDC's loan to PECO as assistance to build a sub-transmission line, payable in equal monthly installments within five years commencing on the sixth month after the date of the last release of the loan balance subject to 9% interest per annum. As of December 31, 2019 and 2018, long-term notes receivable from PECO amounted to ₱3.71 million.

l. Notes to Statements of Cash Flows

Noncash investing activities in 2019 and 2018 pertain to additional provisions and reductions in decommissioning liability amounting to ₱143.85 million and ₱39.28 million, respectively. These formed parts of adjustments to property, plant, and equipment (see Note 16).

It also includes the capitalization of the amortization of deferred financing costs as part of construction in progress amounting to nil and ₱8.28 million in 2019 and 2018, respectively (see Note 15). The Group has an unpaid balance to the contractors which was included as part of property, plant and equipment amounting to ₱49.26 million and ₱107.92 million as of December 31, 2019 and 2018, respectively (see Note 12).

Changes in Liabilities arising from Financing Activities

2019

	January 1, 2019	Cash flows	Accretion of interest	Reclassification of current portion	Amortization of deferred financing costs	Dividend declaration	December 31, 2019
Current portion of long-term debt (see Note 15)	**₱3,477,964,532**	**(₱3,535,673,828)**	**₱–**	**₱3,553,883,845**	**₱57,407,544**	**₱–**	**₱3,553,582,093**
Long-term debt - net of current portion (see Note 15)	**31,644,079,762**	**–**	**–**	**(3,553,883,845)**	**2,148,968**	**–**	**28,092,344,885**
Dividends payable (see Note 25j)	**3,361,369,500**	**(3,361,369,500)**	**–**	**–**	**–**	**3,495,478,850**	**3,495,478,850**
Lease liabilities (see Note 23)	**60,488,197**	**(37,644,541)**	**3,132,411**	**–**	**–**	**–**	**25,976,067**
Advances from shareholder (see Note 20)	**74,010,046**	**5,705,625**	**–**	**–**	**–**	**–**	**79,715,671**
Total liabilities from financing activities	**₱38,617,912,037**	**(₱6,928,982,244)**	**₱3,132,411**	**₱-**	**₱59,556,512**	**₱3,495,478,850**	**₱35,247,097,566**

2018

	January 1, 2018	Cash flows	Conversion of advances to common stock	Reclassification of current portion	Amortization of deferred financing costs	Dividend declaration	December 31, 2018
Current portion of long-term debt (see Note 15)	₱2,589,519,938	(₱2,629,791,476)	₱–	₱3,477,964,532	₱40,271,538	₱–	₱3,477,964,532
Long-term debt - net of current portion (see Note 15)	35,553,099,482	(452,941,176)	–	(3,477,964,532)	21,885,988	–	31,644,079,762
Dividends payable (see Note 25j)	3,427,474,900	(3,427,474,900)	–	–	–	3,361,369,500	3,361,369,500
Advances from shareholder (see Note 20)	149,334,019	39,167,277	(114,491,250)	–	–	–	74,010,046
Total liabilities from financing activities	₱41,719,428,339	(₱6,471,040,275)	(₱114,491,250)	₱-	₱62,157,526	₱3,361,369,500	₱38,557,423,840

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

m. Revenue from Contracts with Customers (see Note 1)

	2019	2018
Sale of electricity from bilateral contracts	**₱19,376,486,056**	₱21,300,601,600
Sale of electricity to spot market (see Notes 1 and 17)	**3,098,841,472**	2,503,229,040
RES	**1,581,117,166**	2,731,195,235
Sale of coal	**107,220,754**	287,149,068
	₱24,163,665,448	₱26,822,174,943

Sale of electricity from bilateral contracts

EPPAs. The Group signed EPPAs with Electric Cooperatives. These contracts provide tariff rates which allows the Group to charge for energy fees (see Note 1).

Memorandum of Agreement with CEDC, PEDC, TPC and GESC. CEDC, PEDC, TPC and GESC agree that in the event that one of them (the "Seller") has available capacity that any one of

the other party in this agreement (the "Buyer") may require in connection with the supply of electric power under its power purchase agreements, the Seller shall supply the Buyer replacement power in accordance with the terms and conditions set out in this agreement.

Sale of electricity to spot market

WESM. The Group and the Philippine Electricity Market Corporation entered into a Market Participation Agreement setting forth the terms and conditions for the eligibility of the Group to participate in the WESM which allows electricity to be injected into or withdrawn from the Grid.

Sale of electricity under the ASPA

ASPA. The Group and the NGCP entered into an ASPA setting forth the terms and conditions: (a) under which NGCP shall procure ancillary services from the Group, and (b) for the operation and dispatch of the generation facility in order to provide ancillary services to the Visayas Grid.

Retail electricity sales

RES. The Group entered into Retail Supply Contracts with contestable customers for a period ranging from one to ten years. These agreements provide for the supply of electricity at an agreed price on a per kilowatt-hour basis to contestable customers.

n. *Claim for Terminated Coal Supply Agreement*

Due to non-conforming coal quality deliveries, PEDC terminated its Coal Supply Agreement with Lucent Aminto, Inc. ("LAI") in 2017. On October 16, 2018 LAI filed a Notice of Arbitration before the Singapore International Arbitration Centre ("SIAC"), claiming a total amount of US$608 thousand which it later increased to a total amount of US$1.1 million plus unquantified damages in its Statement of Claim. In its Statement of Defence and Counterclaim, PEDC filed a total counterclaim of US$437 thousand against LAI. The arbitration proceedings are still ongoing before the SIAC.

o. *Non-renewal of Panay Electric Company, Inc. (PECO) Franchise and Negotiations for Power Supply Contract with More Electric and Power Corporation (MORE)*

On January 19, 2019, the legislative franchise of PECO to distribute electricity in Iloilo City expired without having been renewed. A bill was filed for its renewal but was not acted upon by Congress. News reports have indicated that PECO was pushing a bill for a new franchise from Congress; however, this was denied at the committee level. PEDC and PPC has power supply agreements with PECO which will expire in 2036.

In February 2019, RA No. 11212 was enacted into law. It granted a legislative franchise to MORE to own and operate an electric distribution utility in Iloilo City. RA No. 11212 granted PECO an interim authority to operate the existing distribution system in Iloilo City until MORE establishes or acquires its own distribution system and completes the transition towards full operation. Such interim authority shall not exceed two (2) years from the grant of MORE's legislative franchise. RA No. 11212 also directed the ERC to grant PECO a Certificate of Public Convenience and Necessity (CPCN) covering such interim period.

In May 21, 2019, ERC granted PECO a Provisional CPCN to replace its previous CPCN which expired on May 25, 2019. The Provisional CPCN is valid only for the aforesaid 2-year interim period and shall be automatically revoked once MORE is able to take over the distribution of

electricity in Iloilo City pursuant to RA No. 11212. MORE has filed a CPCN application with the ERC. The said application is still pending with the ERC. In the meantime, PECO continues to operate the electric distribution utility in Iloilo City. PEDC and PPC continue to supply power to PECO under their respective power supply agreements.

Under RA No. 11212, as well as under the Department of Energy Department Circular 2018-02-0003, MORE is authorized to procure emergency power on a negotiated basis provided such supply shall not exceed one (1) year and the rates therefore shall not be higher than the latest ERC-approved rates in the area. Pursuant to such authority, PEDC and PPC are negotiating with MORE for the possible supply of emergency power to Iloilo City.

On July 1, 2019, in a Declaratory Relief case PECO filed to question the validity of RA No. 11212, the Regional Trial Court (RTC) of Mandaluyong City issued a judgment declaring unconstitutional the provisions of RA No. 11212 that grants MORE the power to expropriate PECO's distribution assets. News reports indicate that MORE has appealed this judgment.

On August 14, 2019, in the expropriation case MORE filed to acquire PECO's distribution assets, the RTC of Iloilo City ordered the issuance of a Writ of Possession authorizing MORE to take over possession of PECO's distribution assets. News reports indicate that PECO has filed a motion for reconsideration with the Iloilo RTC.

As of February 26, 2020, PECO was still in possession of its distribution system. PEDC and PPC continued to supply electricity to PECO under their respective power supply agreements.

In the meantime, under RA No. 11212, as well as under the DOE Department Circular DC 2018-02-0003, MORE is authorized to procure emergency power on a negotiated basis provided such supply shall not exceed one (1) year and the rates therefore shall not be higher than the latest ERC-approved rates in the area. Pursuant to such authority, PEDC and PPC are negotiating with MORE for the possible supply of 1-year emergency power to Iloilo City.