Annex "H"

COVER SHEET
for
AUDITED FINANCIAL STATEMENTS

SEC Registration Number

CS200520160

COMPANY NAME

AC ENERGY, INC. (FORMERLY AC ENERGY HOLDINGS, INC.) AND SUBSIDIARIES

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

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

Form Type	Department requiring the report	Secondary License Type, If Applicable
AAFS	CRMD	N/A

COMPANY INFORMATION

Company's Email Address	Company's Telephone Number	Mobile Number
dizon.mcg@acenergy.com.ph	730-6300	09178738290

No. of Stockholders	Annual Meeting (Month / Day)	Fiscal Year (Month / Day)
8	06/15	12/31

CONTACT PERSON INFORMATION

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

Name of Contact Person	Email Address	Telephone Number/s	Mobile Number
Maria Corazon G. Dizon	dizon.mcg@acenergy.com.ph	730-6300	09178738290

CONTACT PERSON's ADDRESS

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

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

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

SGV
Building a better working world

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

Opinion

We have audited the consolidated financial statements of AC Energy, Inc. and Subsidiaries (the Group), which comprise the consolidated statements of financial position as at December 31, 2018 and 2017, 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, 2018 and 2017, 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 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.

John T. Villa
Partner
CPA Certificate No. 94065
SEC Accreditation No. 1729-A (Group A),
December 18, 2018, valid until December 17, 2021
Tax Identification No. 901-617-005
BIR Accreditation No. 08-001998-76-2018,
February 26, 2018, valid until February 25, 2021
PTR No. 7332628, January 3, 2019, Makati City

February 28, 2019

AC ENERGY, INC. (FORMERLY AC ENERGY HOLDINGS, INC.) AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

	December 31	
	2018	2017
ASSETS		
Current Assets		
Cash and cash equivalents (Notes 4 and 28)	**₱11,269,163,691**	₱5,950,008,583
Current portion of receivables (Notes 5 and 28)	**3,581,067,416**	1,115,605,482
Input value-added taxes (Note 7)	**354,621,236**	183,101,239
Other current assets (Notes 8, 20 and 28)	**793,027,309**	680,472,119
	15,997,879,652	7,929,187,423
Noncurrent asset held for sale (Notes 2 and 12)	**5,635,296,425**	–
Total Current Assets	**21,633,176,077**	7,929,187,423
Noncurrent Assets		
Investments in:		
Equity instruments at fair value through other comprehensive income (Notes 11 and 28)	**619,330,603**	–
Available-for-sale investments (Notes 11 and 28)	**–**	597,654,473
Associates and joint ventures (Note 12)	**25,252,038,947**	23,364,444,227
Redeemable preferred shares (Notes 12 and 28)	**1,780,833,733**	1,629,422,558
Property, plant and equipment:		
Property, plant and equipment (Note 15)	**49,229,500,589**	40,798,406,706
Project development cost (Note 9)	**2,094,126**	2,228,729
Investment property (Note 15)	**220,345,447**	220,345,447
Receivables - net of current portion (Notes 5 and 28)	**951,040,899**	160,726,520
Input value-added-tax - net of current portion (Note 7)	**3,872,681,582**	2,560,132,306
Deposits (Notes 13 and 28)	**95,882,155**	76,518,220
Leasehold rights (Note 17)	**445,310,332**	470,726,907
Intangible assets:		
Goodwill (Notes 14 and 16)	**893,717,004**	786,263,071
Intangible assets other than goodwill (Notes 10 and 16)	**428,405,589**	424,016,358
Other noncurrent assets (Note 6)	**18,417,718**	10,581,617
Total Noncurrent Assets	**83,809,598,724**	71,101,467,139
	₱105,442,774,801	₱79,030,654,562
LIABILITIES AND EQUITY		
Current Liabilities		
Accounts and other payables (Notes 18 and 28)	**₱2,685,531,980**	₱3,587,146,988
Short-term loans (Notes 19 and 28)	**4,521,880,000**	–
Current portion of loans payable (Notes 19 and 28)	***420,487,105***	*288,434,107*
Other current liabilities	**151,618,631**	120,624,982
Total Current Liabilities	**7,779,517,716**	3,996,206,077

(Forward)

	December 31	
	2018	2017
Noncurrent Liabilities		
Deferred tax liability - net (Note 25)	**₱716,343,744**	₱157,787,822
Loans payable - net of current portion (Notes 19 and 28)	**41,892,343,864**	31,868,281,729
Other noncurrent liabilities (Notes 21, 22 and 28)	**237,013,523**	18,516,510
Total Noncurrent Liabilities	**42,845,701,131**	32,044,586,061
Total Liabilities	**50,625,218,847**	36,040,792,138
Equity		
Attributable to equity holder of the Parent:		
Paid-in capital (Note 23)	**22,687,220,900**	22,687,220,900
Cumulative translation adjustments (Note 2)	**1,481,273,890**	1,210,057,771
Equity reserves	**30,786,116**	29,288,207
Net unrealized gain on equity instruments at fair value through other comprehensive income (Note 11)	**21,676,130**	–
Remeasurement gain on defined benefit obligation - net of tax	**4,087,334**	2,992,745
Retained earnings	**11,557,438,020**	7,637,337,372
	35,782,482,390	31,566,896,995
Non-controlling interests	**19,035,073,564**	11,422,965,429
	54,817,555,954	42,989,862,424
	₱105,442,774,801	₱79,030,654,562

See accompanying Notes to Consolidated Financial Statements.

AC ENERGY, INC. (FORMERLY AC ENERGY HOLDINGS, INC.) AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

	Years Ended December 31	
	2018	2017
REVENUE		
Rendering of services (Note 2)	**₱4,657,934,920**	₱2,545,931,797
Equity in net income of associates and joint ventures (Note 12)	**2,729,758,452**	2,156,401,634
Others (Notes 11, 15 and 30)	**2,671,674,705**	1,798,718,711
	10,059,368,077	6,501,052,142
OTHER INCOME		
Interest income (Notes 4, 5 and 12)	**768,665,493**	81,482,678
Mark-to-market gains (Note 21)	**45,034,709**	99,883,432
Foreign exchange gain - net	**–**	34,208,287
	813,700,202	215,574,397
	10,873,068,279	6,716,626,539
COST AND EXPENSES		
Cost of power operations (Note 27)	**3,626,939,372**	1,563,398,556
Interest expense (Note 26)	**397,473,722**	288,870,604
Salaries, wages and employee benefits	**373,812,909**	403,750,367
Taxes and licenses	**327,904,841**	107,083,238
Professional fees	**317,092,549**	286,432,462
Depreciation and amortization (Notes 15, 16 and 17)	**202,295,584**	112,569,358
Management fee (Note 25)	**168,025,909**	165,052,313
Foreign exchange losses - net	**78,428,360**	–
Transportation and travel	**52,302,309**	50,969,585
Repairs and maintenance	**31,167,669**	10,464,782
Postal and communication	**19,677,320**	12,247,993
Retirement expense	**17,249,531**	7,455,857
Mark-to-market loss (Note 21)	**15,700,000**	
Provision for impairment losses (Note 5)	**14,806,769**	66,201,748
Supplies	**14,475,670**	7,836,809
Entertainment, amusement and recreation	**10,584,707**	5,632,607
Miscellaneous	**59,820,713**	94,237,714
	5,727,757,934	3,182,203,993
INCOME BEFORE INCOME TAX	**5,145,310,345**	3,534,422,546
PROVISION FOR (BENEFIT FROM) INCOME TAX (Note 25)	**862,169,518**	(55,565,761)
NET INCOME	**4,283,140,827**	3,589,988,307
OTHER COMPREHENSIVE INCOME		
Other comprehensive income to be reclassified to profit or loss in subsequent periods:		
Cumulative translation adjustment	**271,216,119**	(79,085,695)
Other comprehensive income not to be reclassified to profit or loss in subsequent periods:		
Unrealized fair value gain on investments at fair value through other comprehensive income (Note 11)	**21,676,130**	–
Remeasurement gain on defined benefit obligation - net of tax	**1,094,589**	4,960,872
TOTAL COMPREHENSIVE INCOME	**₱4,577,127,665**	₱3,515,863,484

(Forward)

	Years Ended December 31	
	2018	2017
NET INCOME ATTRIBUTABLE TO:		
Equity holders of the Parent Company	**₱4,070,401,583**	₱3,508,934,083
Non-controlling interests (Note 2)	**212,739,244**	81,054,224
	₱4,283,140,827	₱3,589,988,307
TOTAL COMPREHENSIVE INCOME ATTRIBUTABLE TO:		
Equity holders of the Parent Company	**₱4,364,388,421**	₱3,434,809,260
Non-controlling interests (Note 2)	**212,739,244**	81,054,224
	₱4,577,127,665	₱3,515,863,484

See accompanying Notes to Consolidated Financial Statements.

AC ENERGY, INC. (FORMERLY AC ENERGY HOLDINGS, INC.) AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

	Years Ended December 31	
	2018	2017
PAID-IN CAPITAL		
Common Stock - ₱100 par value (Note 23)		
Authorized - 227,400,000 shares		
Issued and subscribed - 159,865,993 shares		
Balance at beginning of year	**₱15,986,599,300**	₱13,137,140,100
Issuance of shares	**–**	2,849,459,200
Balance at end of year	**15,986,599,300**	15,986,599,300
Subscription Receivable (Note 23)		
Balance at beginning of year	**(1,687,500,000)**	(701,164,000)
Subscription of shares	**–**	(986,336,000)
Balance at end of year	**(1,687,500,000)**	(1,687,500,000)
	14,299,099,300	14,299,099,300
Redeemable Common Stock - ₱100 par value (Note 23)		
Authorized - 100,000,000 shares		
Issued and subscribed - 83,881,216 shares		
Balance at beginning of year	**8,388,121,600**	7,361,021,600
Issuance of shares	**–**	1,027,100,000
Balance at end of year	**8,388,121,600**	8,388,121,600
Total Paid-in Capital	**22,687,220,900**	22,687,220,900
CUMULATIVE TRANSLATION ADJUSTMENTS (Note 2)		
Balance at beginning of year	**1,210,057,771**	1,289,143,466
Net change	**271,216,119**	(79,085,695)
Balance at end of year	**1,481,273,890**	1,210,057,771
EQUITY RESERVES		
Balance at beginning of year	**29,288,207**	29,054,783
Net change	**1,497,909**	233,424
Balance at end of year	**30,786,116**	29,288,207
UNREALIZED FAIR VALUE GAIN ON INVESTMENTS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME	**21,676,130**	–
REMEASUREMENT GAIN ON DEFINED BENEFIT OBLIGATION - NET		
Balance at beginning of year	**2,992,745**	(1,968,127)
Net change	**1,094,589**	4,960,872
Balance at end of year	**4,087,334**	2,992,745

(Forward)

	Years Ended December 31	
	2018	2017
RETAINED EARNINGS		
Balance at beginning of year - as previously reported	**₱7,637,337,372**	₱4,151,761,777
Effect of adoption of new standard (Note 2)	**(150,300,935)**	–
Balance at beginning of year - as restated	**7,487,036,437**	4,151,761,777
Transaction costs (Note 23)	**–**	(23,358,488)
Net income	**4,070,401,583**	3,508,934,083
Balance at end of year	**11,557,438,020**	7,637,337,372
NON-CONTROLLING INTERESTS		
Balance at beginning of year	**11,422,965,429**	3,438,310,378
Net income	**212,739,244**	81,054,224
Additional infusions (Note 26)	**7,399,368,891**	7,903,600,827
Balance at end of year	**19,035,073,564**	11,422,965,429
	₱54,817,555,954	₱42,989,862,424

See accompanying Notes to Consolidated Financial Statements.

AC ENERGY, INC. (FORMERLY AC ENERGY HOLDINGS, INC.) AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Years Ended December 31	
	2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES		
Income before income tax	**₱5,145,310,345**	₱3,534,422,546
Adjustments for:		
Depreciation and amortization (Notes 15, 16 and 17)	**429,047,536**	334,864,491
Interest expense (Note 26)	**397,473,722**	288,870,604
Retirement expense	**17,249,531**	7,455,857
Mark-to-market losses (Note 21)	**15,700,000**	–
Provision for impairment losses (Note 5)	**14,806,769**	66,201,748
Unrealized foreign exchange gain - net	**(18,162,626)**	(34,208,287)
Mark-to-market gains (Note 21)	**(45,034,709)**	(99,883,432)
Dividend income (Note 11)	**(20,822,835)**	(11,598,243)
Interest income (Notes 4, 5 and 12)	**(768,665,493)**	(81,482,678)
Equity in net income of associates and joint ventures (Note 12)	**(2,729,758,452)**	(2,156,401,634)
Operating income before working capital changes	**2,437,143,788**	1,848,240,972
Decrease (increase) in:		
Receivables	**(1,138,362,868)**	(666,531,041)
Input value-added taxes	**(1,484,069,273)**	(1,590,513,399)
Prepaid expenses and other current assets	**(205,370,919)**	144,582,626
Increase (decrease) in:		
Accounts and other payables	**(1,010,771,927)**	1,677,028,083
Other liabilities	**217,635,720**	125,979,555
Contribution to retirement fund	–	(8,832,136)
Cash generated from operations	**(1,183,795,479)**	1,529,954,660
Interest received	**189,881,444**	77,992,801
Income tax paid	**(215,992,783)**	(91,851,301)
Net cash flows provided by (used in) operating activities	**(1,209,906,818)**	1,516,096,160
CASH FLOWS FROM INVESTING ACTIVITIES		
Acquisition through business combination - net of cash acquired (Note 14)	**(110,613,036)**	(2,245,326,527)
Deductions (additions) to:		
Receivables - noncurrent portion	**(788,700,000)**	–
Investments in associates and joint ventures (Note 12)	**(8,354,990,269)**	(10,197,037,232)
Investments in redeemable preferred shares (Note 12)	**(151,411,175)**	(1,629,422,558)
Investments in available-for-sale investment (Note 11)	–	(611,743)
Deposits (Note 13)	**(19,363,935)**	570,472,376
Project development cost (Note 9)	**134,603**	(59,856,928)
Property, plant and equipment (Note 15)	**(5,579,362,037)**	(11,773,674,045)
Right of way (Note 10)	**(14,520,641)**	–
Other noncurrent asset	**(7,836,100)**	(10,581,617)
Proceeds from:		
Sale of property, plant and equipment	**43,879,240**	1,124,307
Return of capital (Note 12)	**754,438,666**	1,569,625,334
Dividends received (Notes 11 and 12)	**2,677,339,779**	1,211,918,381
Net cash used in investing activities	**(11,551,004,905)**	(22,563,370,252)

(Forward)

	Years Ended December 31	
	2018	2017
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from:		
Availment of long-term loans payable (Note 19)	**₱11,199,826,601**	₱13,477,184,995
Availment of short-term loans payable (Note 19)	**4,521,880,000**	–
Capital infusion of non-controlling interests in subsidiaries (Note 20)	**7,399,368,891**	7,903,600,827
Issuance of shares of stocks (Note 23)	–	2,890,223,200
Payments of:		
Interest including capitalized borrowing cost (Note 26)	**(1,948,992,994)**	(1,445,057,004)
Long-term loans payable and debt issue cost (Note 19)	**(3,110,178,293)**	(482,148,815)
Transaction costs on issuance of shares (Note 23)	–	(23,358,488)
Short-term loans payable (Note 19)	–	(150,000,000)
Advances from related party (Note 25)	–	(6,563,040,000)
Net cash provided by financing activities	**18,061,904,205**	15,607,404,715
EFFECTS OF CHANGES IN FOREIGN CURRENCY EXCHANGE RATE ON CASH AND CASH EQUIVALENTS	**18,162,626**	3,427,338
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	**5,319,155,108**	(5,436,442,039)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	**5,950,008,583**	11,386,450,622
CASH AND CASH EQUIVALENTS AT END OF YEAR (Note 4)	**₱11,269,163,691**	₱5,950,008,583

See accompanying Notes to Consolidated Financial Statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

1. Corporate Information

AC Energy, Inc. (formerly AC Energy Holdings, Inc., the Parent Company) was incorporated on December 13, 2005 and is domiciled in the Philippines. The Parent Company and its subsidiaries (collectively, the Group) were organized primarily to purchase, exchange, hold, own, use investments, capital stock or other securities and exercise all the rights, powers, and privileges of ownership to the extent permitted by law, as well as to engage in the purchase, retail, supply and delivery of electricity and in such other activities related thereto. The subsidiaries are discussed in Note 2.

The Parent Company is a wholly owned subsidiary of Ayala Corporation (AC), a publicly-listed company which is 47.04% owned by Mermac, Inc. (ultimate parent company), and the rest by the public. AC is an entity incorporated in the Philippines.

The Parent Company's registered office address is 4th Floor 6750 Ayala Avenue Office Tower, Makati City.

On July 27, 2016, the Articles of Incorporation (AOI) of the Parent Company was amended to include in its secondary purpose of business the purchase, retail, supply and delivery of electricity.

On September 8, 2016, the Parent Company was granted a Retail Electricity Supply license allowing it to sell electricity to the end-users in the contestable market. This business unit is known as AC Energy Retail Electricity Supply (ACERES).

On March 7, 2017, the Board of Directors (BOD) approved the amendment of the Parent Company AOI to include in the primary purpose of business the development, operation and maintenance of power projects and the change of registered name of AC Energy Holdings, Inc. to AC Energy, Inc. (ACEI). The amendments were approved by the Securities and Exchange Commission on December 29, 2017.

The consolidated financial statements of the Group were authorized for issue by the BOD on February 28, 2019.

2. Summary of Significant Accounting Policies

Basis of Preparation
The accompanying consolidated financial statements of the Group have been prepared on a historical cost basis except for equity instruments at fair value through other comprehensive income (FVOCI), derivative asset, and derivative liability which are all measured at fair value.

The consolidated financial statements are presented in Philippine Peso (₱), which is the functional and presentation currency of the Parent Company, and all amounts are rounded to the nearest Philippine Peso, unless otherwise indicated.

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

Basis of Consolidation
The consolidated financial statements comprise the financial statements of the Parent Company and its subsidiaries as of December 31, 2018 and 2017.

Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Specifically, the Group controls an investee if and only if the Group has:
- Power over the investee (i.e. existing rights that give it the current ability to direct the relevant activities of the investee);
- Exposure, or rights, to variable returns from its involvement with the investee; and
- The ability to use its power over the investee to affect its returns.

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
- The Group's voting rights and potential voting rights

The Group re-assesses 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 or excluded in the consolidated financial statements from the date the Group gains control or until the date the Group ceases to control the subsidiary.

The financial statements of the subsidiaries are prepared for the same reporting period as the Parent Company, using consistent accounting policies. All intra-group balances, transactions, unrealized gains and losses resulting from intra-group transactions and dividends are eliminated in full.

Non-controlling interests pertain to the equity in a subsidiary not attributable, directly or indirectly to the Parent Company. Any equity instruments issued by a subsidiary that are not owned by the Parent Company are non-controlling interests including preferred shares and options under share-based transactions. The portion of profit or loss and net assets in subsidiaries not wholly owned are presented separately in the consolidated statement of income, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of financial position, separately from the Parent Company's equity. Non-controlling interests are net of any outstanding subscription receivable.

Losses within a subsidiary are attributed to the non-controlling interests even if that results in a deficit balance.

A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction. Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received is recognized directly in equity as "Equity reserve" and attributed to the owners of the Parent Company.

If the Group losses control over a subsidiary, it derecognises the related assets (including goodwill), liabilities, non-controlling interest and other components of equity, while the resulting gain or loss is recognised in profit or loss. Any investment retained is recognised at fair value.

The consolidated financial statements represent the consolidation of the financial statements of the Parent Company and the following subsidiaries:

	Percentages of Ownership	
	2018	2017
Moorland Philippines Holdings, Inc. (Moorland)	**100**	100
Viage Corporation (Viage)	**100**	100
Presage Corporation (Presage)	**100**	100
AC Energy International Holdings PTE Ltd. (ACEHI SG)	**100**	100
AC Energy HK Limited (ACEHL)	**100**	100
AC Energy Cayman (ACEC)	**100**	100
ACEHI Netherlands B.V. (ACNBV)	**100**	100
AC Energy Vietnam Investments Pte. Ltd. (ACEV)	**100**	100
Gigasol 2, Inc. (Gigasol2)	**100**	100
AC Laguna Solar, Inc. (ALSI)	**100**	100
AC La Mesa Solar, Inc. (ALMSI)	**100**	100
AC Subic Solar, Inc. (ASSI)	**100**	100
Gigasol 1, Inc. (Gigasol1)	**100**	100
Gigasol 3, Inc. (Gigasol2)	**100**	100
Solar Ace 1, Inc. (SolarAce1)	**100**	100
Solar Ace 2, Inc. (SolarAce2)	**100**	100
SCC Bulk Water Supply, Inc. (SCC Bulk Water)	**100**	100
HDP Bulk Water Supply, Inc. (HDP)	**100**	–
Solienda Incorporated (SI)	**100**	100
Pagudpud Wind Power Corp. (PWPC)	**100**	–
Bayog Wind Power Corp. (BWPC)	**83.97**	–
Visayas Renewables Corporation (VRC)	**100**	100
Bataan Solar Energy, Inc. (BSEI)	**100**	100
Sta. Cruz Solar Energy, Inc. (SCSEI)	**100**	100
Arlington Mariveles Netherlands Holdings B.V. (AMNHBV)	**100**	–
Arlington Mariveles Netherlands Cooperative (AMNC)	**100**	–
AC Energy DevCo Inc. (AEDCI)	**100**	100
MCV Bulk Water Supply, Inc. (MCV)	**100**	100
LCC Bulk Water Supply, Inc. (LCC)	**100**	100
San Julio Land Development Corp. (SJLDC)	**100**	100
Manapla Sun Power Dev't Corp. (MSPDC)	**66.22**	66.22
AC Energy GP Corporation (AEGC)	**100**	100
Kauswagan Power Holdings Ltd. Co. (KPHLC)	**85.72**	85.72
ACE Dinginin GP Corporation (ADGC)	**100**	100
ACE Mariveles GP Corporation (AMGC)	**100**	100
NorthWind Power Development Corporation (NPDC)	**67.79**	67.79
Monte Solar Energy, Inc. (MSEI)	**100**	100

(Forward)

	Percentages of Ownership	
	2018	2017
AA Thermal, Inc. (AATI)	**100**	–
ACE Mariveles Power Ltd. Co. (AMPLC)	**100**	100
Dinginin Power Holdings Ltd. Co. (DPHLC)	**100**	100
ACE Thermal, Inc. (ATI)	**100**	–
Ingrid Power Holdings, Inc. (IPHI)	**100**	–
Pilipinas Thermal, Inc. (PTI)	**100**	–

The following were the changes in the Group structure during 2018:

On June 7, 2018, IPHI, a wholly owned subsidiary of ACEI was incorporated.

On July 12, 2018, the Group restructured Gigasol2 to transfer 100% ownership of ALSI, ALMSI, ASSI, Gigasol1, Gigasol3, SolarAce1, and SolarAce2. These companies including Gigasol2 were previously 100%-owned by Presage prior to restructuring.

On September 7, 2018, ATI, a wholly owned subsidiary of ACEI was incorporated.

On September 20, 2018, AATI and PTI, wholly owned subsidiaries of ACEI were incorporated.

On September 24, 2018, ACEI transferred 100% of its limited partnership interest in each of AMPLC and DPHLC to AATI. The transfer is part of the Group's restructuring plan for its thermal assets.

On September 26, 2018, Aboitiz Power Corp. entered into a share purchase agreement with the Group for the acquisition of 12.20% effective interest in GN Power Mariveles Corp. (GMCPLC) and 30.00% effective interest in GNPower Dinginin (GNPD). The closing of the sale transaction is subject to conditions precedent (including the approval by the Philippine Competition Commission) which are still to occur as of the date of authorization for issue of the consolidated financial statements. The transaction was valued at US$579.20 million. After the sale, the Group's effective ownership in GMCPLC and GNPD will be reduced to 8.13% and 20.00%, respectively.

Consequently, as a result of the share purchase agreement, the Group's interest in GMCPLC and GNPD, in so far as it relates to the portion to be sold to Aboitiz Power Corp., is reclassified to noncurrent asset held for sale as of September 26, 2018. Investments in associates and joint ventures reclassified to noncurrent asset held for sale amounted to ₱5,635.30 million (see Note 12).

On November 27, 2018, Presage entered into an Investment Framework Agreement and Shareholders' Agreement for the development and construction of a proposed Balaoi-Caunayan wind farm project in Ilocos Norte (Balaoi). As part of the transaction, Presage agreed to acquire full ownership of PWPC, the majority shareholder of BWPC, the project company for Balaoi.

On December 7, 2018, Presage entered into a Share Purchase Agreement for the purchase of 100% of outstanding capital stock of HDP (see Note 14).

The following were the changes in the Group structure during 2017:

On February 3, 2017, ACNBV was established as a wholly owned subsidiary of ACEHI SG. ACNBV as part of an Indonesian consortium, holds 19.80% interest in Star Energy Salak-Darajat, B.V. (Salak Darajat; see Note 12).

On March 16, 2017, ACEI signed definitive documents to acquire 100% ownership of BCE and SCCE as well as an additional 36.79% of the shares of MSPDC (see Note 14). The acquisition provides the Group with renewable energy development, management and operations platform. MSPDC, on the other hand, engages in leasing, operating, managing and developing public or private lands since 2015. With these acquisitions, SCCE and BCE have been renamed as AEDCI and VRC, respectively. Further, with the acquisition of BCE that owns the remaining 4.00% of MSEI, MSEI became a wholly owned subsidiary of ACEI.

On March 30, 2017, Gigasol1, Gigasol2, Gigasol3, SolarAce1 and SolarAce2 were incorporated as wholly owned subsidiaries of Presage. These shall carry on the business of exploring, developing, and utilizing renewable energy projects in the Philippines.

On September 11, 2017, ACEV was established as a wholly owned subsidiary of ACEHI SG. ACEV is intended to be the holding entity for the Group's future renewable energy investments in Vietnam (see Note 12).

On December 18, 2017, Presage acquired 100.00% interest in SCC. SCC is engaged in the collection, purification and distribution of water in Negros Occidental. The entity has not started commercial operations as of December 2018 (see Note 14).

On December 28, 2017, ACEI acquired 100.00% interest in SI. Principal activities of SI includes dealing and engaging in land lease and real estate business (see Note 14).

Material partly owned subsidiaries with material economic ownership interest
Information of subsidiaries that have material non-controlling economic interests are provided below:

2018	**NPDC**	**GNPK**
Proportion of equity interests held by non-controlling interest	**32.21%**	**14.28%**
Voting rights held by non-controlling interest	**32.21%**	**14.28%**
Net income attributable to non-controlling interest	**₱105,974,855**	**₱238,619,307**
Total comprehensive income attributable to material non-controlling interest	**106,382,096**	**126,908,114**

2017	NPDC	GNPK
Proportion of equity interests held by non-controlling interest	32.21%	14.28%
Voting rights held by non-controlling interest	32.21%	14.28%
Net income attributable to non-controlling interest	₱117,940,916	(₱19,261,982)
Total comprehensive income (loss) attributable to material non-controlling interest	114,453,972	(276,841)

The summarized financial information of these subsidiaries are provided below. These information are based on the amounts before inter-company eliminations.

2018	**NPDC**	**GNPK**
Statement of financial position		
Current assets	**₱722,266,802**	**₱4,170,540,282**
Noncurrent assets	**2,716,247,006**	**47,977,763,353**
Current liabilities	**514,612,051**	**1,596,215,017**
Noncurrent liabilities	**2,134,478,144**	**37,331,847,007**
Statement of comprehensive income		
Revenue	**984,146,087**	**2,027,259,225**
Profit attributable to:		
Equity holders of the parent	**223,037,424**	**1,432,384,244**
Noncontrolling interests	**105,974,855**	**238,619,307**
Total comprehensive income attributable to:		
Equity holders of the parent	**223,894,515**	**761,804,170**
Noncontrolling interests	**106,382,096**	**126,908,114**
Statement of cash flows		
Operating activities	**808,099,635**	**(2,870,849,912)**
Investing activities	**(13,448,574)**	**(4,484,837,022)**
Financing activities	**(716,663,658)**	**6,186,031,795**
Effect of changes in foreign exchange rates on cash and cash equivalents	**45,690**	**(38,271,037)**

2017	NPDC	GNPK
Statement of financial position		
Current assets	₱779,135,238	₱2,777,748,700
Noncurrent assets	3,662,113,900	38,399,629,250
Current liabilities	459,758,778	2,459,266,500
Noncurrent liabilities	1,770,208,117	29,105,464,823
Statement of comprehensive income		
Revenue	870,741,802	202,006,192
Profit attributable to:		
Equity holders of the parent	248,221,507	(115,625,845)
Noncontrolling interests	117,940,916	(19,261,982)
Total comprehensive income attributable to:		
Equity holders of the parent	240,882,793	(1,661,819)
Noncontrolling interests	114,453,972	(276,841)
Statement of cash flows		
Operating activities	717,016,834	(579,243,223)
Investing activities	(19,544,613)	(13,593,516,596)
Financing activities	(649,137,389)	15,454,823,963
Effect of changes in foreign exchange rates on cash and cash equivalents	(171,798)	3,043,333

Changes in Accounting Policies

The Group adopted the new PFRS, amended PFRS and improvements to PFRS which were adopted beginning January 1, 2018. Adoption of these new standards and amendments did not have significant impact on the Group's consolidated financial position or performance, unless otherwise stated.

- Amendments to PFRS 2, *Share-based Payment, Classification and Measurement of Share-based Payment Transactions*

- PFRS 9, *Financial Instruments*

  PFRS 9, *Financial Instruments* replaces Philippine Accounting Standards (PAS) 39, *Financial Instruments: Recognition and Measurement* for annual periods beginning on or after January 1, 2018, bringing together all three aspects of the accounting for financial instruments: classification and measurement; impairment; and hedge accounting.

  Under PFRS 9, debt instruments are subsequently measured at fair value through profit or loss, amortized cost, or fair value through OCI. The classification is based on two criteria: the Group's business model for managing the assets; and whether the instruments' contractual cash flows represent 'solely payments of principal and interest' on the principal amount outstanding (SPPI criterion). The assessment of the Group's business model was made as of the date of initial application, January 1, 2018. The assessment of whether contractual cash flows on debt instruments are solely comprised of principal and interest was made based on the facts and circumstances as at the initial recognition of the assets.

  The Group applied PFRS 9 using modified retrospective approach, with an initial application date of January 1, 2018. The Group chose not to restate comparative figures as permitted by the transitional provisions of PFRS 9, thereby resulting in the following impact:
  - Comparative information for prior periods will not be restated. The classification and measurement requirements previously applied in accordance with PAS 39 and disclosures required in PFRS 7 will be retained for the comparative periods. Accordingly, the information presented for 2017 does not reflect the requirements of PFRS 9.
  - The Group will disclose the accounting policies for both the current period and the comparative periods, one applying PFRS 9 beginning January 1, 2018 and one applying PAS 39 as of December 31, 2017.
  - There was no difference between the previous carrying amount and the carrying amount at the beginning of the annual reporting period that includes the date of initial application that was recognized in the opening 'Retained earnings' or other component of equity, as appropriate.
  - As comparative information is not restated, the Group is not required to provide a third statement of financial position at the beginning of the earliest comparative period in accordance with PAS 1, *Presentation of Financial Statements*.

  As of January 1, 2018, the Group has reviewed and assessed all its existing financial assets, and financial liabilities. The table below illustrates the classification and measurement of financial assets and financial liabilities under PFRS 9 and PAS 39 at the date of initial application. The accounting policies adopted by the Group in its evaluation of the classification and measurement categories under PFRS 9 are discussed in a separate section of this note.

Classification and measurement
The measurement category and the carrying amount of financial assets and liabilities in accordance with PAS 39 and PFRS 9 as of January 1, 2018 are compared as follows:

Financial Assets	Original Measurement Category under PAS 39	Original Carrying Amount under PAS 39	New Measurement Category under PFRS 9	New Carrying Amount under PFRS 9
Cash in banks	Loans and receivables	₱3,656,621,203	Financial assets at amortized cost	₱3,656,621,203
Cash equivalents	Loans and receivables	2,270,386,643	Financial assets at amortized cost	2,270,386,643
Receivables	Loans and receivables	1,276,332,002	Financial assets at amortized cost	1,276,332,002
Unquoted equity securities	Available for sale financial assets	597,654,473	Financial assets at fair value through other comprehensive income	597,654,473
Investments in redeemable preferred shares	Loans and receivables	1,629,422,558	Financial assets at amortized cost	1,629,422,558
Derivative asset	Financial assets at fair value through profit or loss	83,785,051	Financial assets at fair value through profit or loss	83,785,051

There were no changes to the classification and measurement of financial liabilities.

The Group does not have financial assets and financial liabilities which had previously been designated at FVPL to reduce an accounting mismatch in accordance with PAS 39 which had been reclassified to amortized cost or FVOCI upon transition to PFRS 9.

Impairment testing under expected credit loss (ECL) model
There is no re-measurement loss recognized in retained earnings as at January 1, 2018. The use of ECL upon adoption of PFRS 9 as explained below, did not result to any additional impairment loss.

The adoption of PFRS 9 has fundamentally changed the Group's accounting for impairment losses for financial assets by replacing PAS 39's incurred loss approach with a forward-looking ECL approach. PFRS 9 requires the Group to record an allowance for impairment losses for all loans and other debt financial assets not held at fair value through profit or loss (FVPL). 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. The shortfall is then discounted at an approximation to the asset's original effective interest rate. The expected cash flows will include net cash flows from the sale of collateral held or other credit enhancements that are integral to the contractual terms.

For the financial assets of the Group, 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).

- Amendments to PAS 18, *Revenue*, PFRS 15, *Revenue from Contracts with Customers*

  PFRS 15 supersedes PAS 18, *Revenue* and related Interpretations and it applies to all revenue arising from contracts with customers, unless those contracts are in the scope of other standards. The new standard establishes a five-step model to account for revenue arising from contracts with customers. Under PFRS 15, revenue is recognized at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer.

  PFRS 15 requires entities to exercise judgement, taking into consideration all of the relevant facts and circumstances when applying each step of the model to contracts with their customers. The standard also specifies the accounting for the incremental costs of obtaining a contract and the costs directly related to fulfilling a contract.

  The Group's revenue from its rendering of services consist of:

	For Years Ended December 31	
	2018	2017
Energy sales	**₱4,283,311,660**	₱2,334,520,762
Rental income (Notes 15, 17 and 30)	**189,623,312**	82,848,366
Management fees (Notes 11, 12 and 24)	**184,999,948**	128,562,669
	₱4,657,934,920	₱2,545,931,797

  The Group adopted PFRS 15 using the modified retrospective method of adoption. The Group elected to apply the modified retrospective method only to contracts that were not completed at the date of initial application which is January 1, 2018.

  The adoption of PFRS 15 affected the Group's associate, Salak-Darajat, which is accounted for under the equity method (see Note 12). In compliance with PFRS 15, revenue of Salak-Darajat is recognized over time using output method in the period actual capacity from steam/geothermal energy is generated since the customer consumes the benefit from the performance of the related dispatch of energy. The adoption of PFRS 15 decreased the Group's investments in associates and joint ventures by ₱150.30 million as of January 1, 2018.

  Except for the above, the Group assessed that its contract each has a single performance obligation, mainly relating to sale of power and rendering of management services. Under PFRS 15, the Group concluded that revenue from sale of services will continue to be recognized over time. Moreover, under PFRS 15, any consideration earned but conditional is recognized as a contract asset rather than a receivable.

  Presentation and disclosure requirements
  As required for the consolidated financial statements, the Group disaggregated revenue recognized from contracts with customers into categories that depict how the nature, amount, timing and uncertainty of revenue and cash flows are affected by economic factors. The Group also disclosed information about the relationship between the disclosure of disaggregated revenue and revenue information disclosed for each reportable segment.

- Amendments to PAS 28, *Measuring an Associate or Joint Venture at Fair Value* (Part of *Annual Improvements to PFRSs* 2014 - 2016 Cycle)

- Amendments to PFRS 4, *Insurance Contracts, Applying PFRS 9, Financial Instruments, with PFRS 4*
- Amendments to PAS 40, *Investment Property, Transfers of Investment Property*
  The amendments clarify when an entity should transfer property, including property under construction or development into, or out of investment property. The amendments state that a change in use occurs when the property meets, or ceases to meet, the definition of investment property and there is evidence of the change in use. A mere change in management's intentions for the use of a property does not provide evidence of a change in use. The amendments should be applied prospectively to changes in use that occur on or after the beginning of the annual reporting period in which the entity first applies the amendments. Retrospective application is only permitted if this is possible without the use of hindsight.

  There were no transfers into and out of investment property in 2018.

- Philippine Interpretation IFRIC-22, *Foreign Currency Transactions and Advance Consideration*

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

Effective beginning on or after January 1, 2019
- Amendments to PFRS 9, *Prepayment Features with Negative Compensation*
- PFRS 16, *Leases*
- Amendments to PAS 19, *Employee Benefits, Plan Amendment, Curtailment or Settlement*
- Amendments to PAS 28, *Long-term Interests in Associates and Joint Ventures*
- Philippine Interpretation IFRIC-23, *Uncertainty over Income Tax Treatments*
- *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*
  - Amendments to PAS 12, *Income Tax Consequences of Payments on Financial Instruments Classified as Equity*
  - Amendments to PAS 23, *Borrowing Costs, Borrowing Costs Eligible for Capitalization*

Effective beginning on or after January 1, 2020
- Amendments to PFRS 3, *Definition of a Business*
- Amendments to PAS 1, *Presentation of Financial Statements*, and PAS 8, *Accounting Policies, Changes in Accounting Estimates and Errors, Definition of Material*

Effective beginning on or after January 1, 2021
- PFRS 17, *Insurance Contracts*

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

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

Cash and Cash Equivalents
Cash includes cash on hand and cash in bank. Cash in bank earns interest at the respective bank deposit rates. Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash with maturities of three months or less from dates of placements and are subject to an insignificant risk of change in value.

Financial Instruments under PFRS 9

Initial recognition
The Group classifies financial assets, at initial recognition, as subsequently measured at amortized cost, fair value through other comprehensive income (OCI), and fair value through profit or loss.

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.

In order for a financial asset to be classified and measured at amortized cost or fair value through OCI, it needs to give rise to cash flows that are "solely payments of principal and interest (SPPI)" on the principal amount outstanding. This assessment is referred to as the SPPI test and is performed at an instrument level.

The Group's business model for managing financial assets refers to how it manages its financial assets in order to generate cash flows. The business model determines whether cash flows will result from collecting contractual cash flows, selling the financial assets, or both.

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 Company commits to purchase or sell the asset.

Subsequent measurement of financial assets
For purposes of subsequent measurement, financial assets are classified in four categories:
- Financial assets at amortized cost (debt instruments)
- Financial assets at fair value through OCI with recycling of cumulative gains and losses (debt instruments)
- Financial assets designated at fair value through OCI with no recycling of cumulative gains and losses upon derecognition
- Financial assets at fair value through profit or loss

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
- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding

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. This accounting policy relates to the Group's "Cash and cash equivalents", "Receivables" and "Investment in redeemable preference shares".

Financial assets designated at fair value through OCI (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 statement of profit or loss 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 OCI. Equity instruments designated at fair value through OCI are not subject to impairment assessment.

The Group elected to classify irrevocably its unquoted equity investments under this category (see Note 11).

Financial assets at fair value through profit or loss
Financial assets at fair value through profit or loss include financial assets held for trading, financial assets designated upon initial recognition at fair value through profit or loss, or financial assets mandatorily required to be measured at fair value. Financial assets are classified as held for trading if they are acquired for the purpose of selling or repurchasing in the near term. Derivatives, including separated embedded derivatives, are also classified as held for trading unless they are designated as effective hedging instruments. Financial assets with cash flows that are not solely payments of principal and interest are classified and measured at fair value through profit or loss, irrespective of the business model. Notwithstanding the criteria for debt instruments to be classified at amortized cost or at fair value through OCI, as described above, debt instruments may be designated at fair value through profit or loss on initial recognition if doing so eliminates, or significantly reduces, an accounting mismatch.

Financial assets at fair value through profit or loss are carried in the statement of financial position at fair value with net changes in fair value recognized in the consolidated statement of profit or loss.

This category includes derivative instruments which the Group had not irrevocably elected to classify at fair value through OCI.

A derivative embedded in a hybrid contract, with a financial liability or non-financial host, is separated from the host and accounted for as a separate derivative if: the economic characteristics and risks are not closely related to the host; a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative; and the hybrid contract is not measured at fair value through profit or loss. Embedded derivatives are measured at fair value with changes in fair value recognized in profit or loss. Reassessment only occurs if there is either a change in the terms of the contract that significantly modifies the cash flows that would otherwise be required or a reclassification of a financial asset out of the fair value through profit or loss category.

A derivative embedded within a hybrid contract containing a financial asset host is not accounted for separately. The financial asset host together with the embedded derivative is required to be classified in its entirety as a financial asset at fair value through profit or loss.

Financial liabilities
Initial recognition and measurement
Financial liabilities are classified, at initial recognition, as financials liabilities at fair value through profit or loss, loans and borrowings, payables, or as derivatives designated as hedging instruments in an effective hedge, as appropriate.

All financial liabilities are recognized initially at fair value.

Subsequent measurement
After initial measurement, financial liabilities are measured at amortized cost using the effective interest method. Amortized cost is calculated by taking into account any discount or premium on the issue and fees that are an integral part of the effective interest rate.

As of December 31, 2018, the Company's financial liabilities pertain to "Accounts and other payables", "Short-term loans payable" and "Long-term loans payable".

Derecognition of Financial Assets and Financial Liabilities

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

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

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

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

The principal or the most advantageous market must be accessible to the Group. The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

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

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

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

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

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

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

Day 1 difference
Where the transaction price in a non-active market is different from the fair value of other observable current market transactions in the same instrument or based on a valuation technique whose variables include only data from observable market, the Group recognizes the difference between the transaction price and fair value (a Day 1 difference) in the consolidated profit or loss unless it qualifies for recognition as some type of asset or liability. In cases where no observable data is used, the difference between the transaction price and model value is only recognized in profit or loss 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 profit amount.

Impairment of Financial Assets
The Group recognizes an allowance for expected credit losses (ECLs) for all debt instruments not held at fair value through profit or loss. 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 effective interest rate. 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 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).

The Group applies a simplified approach in calculating ECLs for "Receivables" and "Investments in redeemable preference shares". 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's "Cash and cash equivalents" are graded to be low credit risk investment based on the depository bank's credit ratings as published by Bloomberg Terminal.

Offsetting Financial Instruments
Financial instruments are offset and the net amount reported in the consolidated statement of financial position if, and only if, there is a currently enforceable legal right to offset the recognized amounts and there is an intention to settle on a net basis, or to realize the asset and settle the liability simultaneously.

Financial Instruments under PAS 39

Initial recognition
All financial assets and financial liabilities are initially recognized at fair value. Except for financial assets at fair value through profit or loss (FVPL), the initial measurement of financial assets includes transaction costs. The Group classifies its financial assets in the following categories: financial assets at FVPL, held-to-maturity investments (HTM), available-for-sale (AFS) financial assets, and loans and receivables. Financial liabilities, on the other hand, are classified as financial liabilities at FVPL and other financial liabilities. The classification depends on the purpose for which the investments were acquired and whether they are quoted in an active market. The Group determines the classification of its investments at initial recognition and, where allowed and appropriate, re-evaluates such designation at every reporting date.

Financial instruments are classified as liabilities or equity in accordance with the substance of the contractual arrangement. Interests, dividends, gains and losses relating to a financial instrument or a component that is a financial liability, are reported as expense or income. Distributions to holders of financial instruments classified as equity are charged directly to equity, net of related income tax benefits.

The Group's financial instruments are of the nature of loans and receivables, AFS, derivative asset, and other financial liabilities.

Loans and receivables
Loans and receivables are non-derivative financial assets with fixed or determinable payments and fixed maturities that are not quoted in an active market. These are not entered into with the intention of immediate or short-term resale and are not designated as AFS or financial assets at FVPL. These are included in current assets if maturity is within 12 months from the end of the reporting period otherwise; these are classified as noncurrent assets. This accounting policy relates to the statement of financial position captions "Cash and cash equivalents", "Receivables" and "Investment in redeemable preference shares".

After initial measurement, loans and receivables are subsequently measured at amortized cost using the effective interest rate method, less allowance for impairment. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees that are an integral part of the effective interest rate and transaction costs. The losses arising from impairment of such loans and receivables are recognized in profit or loss.

AFS financial assets
AFS financial assets are nonderivative financial assets that are designated as such or do not qualify to be classified or designated as financial assets at FVPL, HTM investments or loans and receivables. These are purchased and held indefinitely, and may be sold in response to liquidity requirements or changes in market conditions.

After initial measurement, AFS financial assets are subsequently measured at fair value with unrealised gains or losses recognized in OCI and credited to the OCI until the investment is derecognized, at which time, the cumulative gain or loss is recognized in other operating income, or the investment is determined to be impaired, when the cumulative loss is reclassified from the OCI to the consolidated statement of comprehensive income in interest and other financing charges. Interest earned whilst holding AFS financial assets is reported as interest income using the EIR method.

When the investment is disposed of, the cumulative gain or loss previously recognized in OCI is recognized as gain or loss on disposal in profit or loss. Where the Group holds more than one investment in the same security these are deemed to be disposed of on a first-in first-out basis. Interest earned on holding AFS financial assets are reported as interest and other income from investments using the EIR. Dividends earned on holding AFS financial assets are recognized in profit or loss as part of miscellaneous income when the right to receive payment has been established. The losses arising from impairment of such investments are recognized as provisions for impairment losses in profit or loss.

When the fair value of AFS equity financial assets cannot be measured reliably because of lack of reliable estimates of future cash flows and discount rates necessary to calculate the fair value of unquoted equity instruments, these investments are carried at cost, less any impairment losses.

As of December 31, 2017, AFS financial assets comprise of unquoted equity securities. The unquoted equity securities are reclassified as FVOCI as at January 1, 2018.

Financial assets and financial liabilities at FVPL
This category includes financial assets and financial liabilities held for trading and financial assets and financial liabilities designated upon initial recognition as at FVPL. Financial assets and financial liabilities are classified as held for trading if they are acquired for the purpose of selling in the near term. Derivatives, including separated embedded derivatives, are also classified as held for trading unless they are designated as effective hedging instruments or financial guarantee contracts.

Financial assets and financial liabilities may be designated by management on initial recognition as at FVPL when the following criteria are met:

- The designation eliminates or significantly reduces the inconsistent treatment that would otherwise arise from measuring the assets or liabilities or recognizing gains or losses on them on a different basis; or
- The assets or liabilities are part of a group of financial assets, or are financial assets and financial liabilities, which are managed and their performance is evaluated on a fair value basis, in accordance with a documented risk management or investment strategy.

The financial instrument contains an embedded derivative, unless the embedded derivative does not significantly modify the cash flows or it is clear, with little or no analysis, that it would not be separately recorded.

Financial assets and financial liabilities at FVPL are recorded in the consolidated statement of financial position at fair value. Changes in fair value are recorded in the consolidated statement of comprehensive income.

Interest earned or incurred is recorded as interest income or expense, respectively, while dividend income is recorded as other income when the right to receive payment has been established.

Financial asset at FVPL pertains to "Derivative asset".

Embedded Derivatives
An embedded derivative is separated from the host contract and accounted for as derivative if all the following conditions are met:
1. the economic characteristics and risks of the embedded derivative are not closely related to the economic characteristic of the host contract;
2. a separate instrument with the same terms as the embedded derivative would meet the definition of the derivative; and
3. the hybrid or combined instrument is not recognized at FVPL.

The Group assesses whether embedded derivatives are required to be separated from host contracts when the Group first becomes party to the contract. Reassessment only occurs if there is a change in the terms of the contract that significantly modifies the cash flows that would otherwise be required.

Other financial liabilities
Other financial liabilities are financial liabilities not designated at FVPL where the substance of the contractual arrangement results in the Group having an obligation either to deliver cash or another financial asset to the holder, or to satisfy the obligation other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of its own equity shares. After initial measurement, other financial liabilities are subsequently measured at amortized cost using the effective interest rate method. Amortized cost is calculated by taking into account any discount or premium on the issue and fees that are an integral part of the effective interest rate.

This accounting policy applies primarily to "Accounts and other payables", "Short-term loans", "Loans payable" and other non-current liabilities that meet the definition above.

Other financial liabilities (or portion thereof) are reported as current liabilities if maturity is within 12 months from the end of the reporting period. Otherwise, these are classified as noncurrent liabilities.

Derecognition provisions for financial assets and financial liabilities under PFRS 9 and PAS 39 are substantially the same.

Impairment of Financial Assets
The Group assesses at each reporting date whether there is objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset (an incurred 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or the group of similar financial assets that can be reliably estimated. Evidence of impairment may include indications that the borrower or a group of borrowers is experiencing significant financial difficulty,

default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganization and where observable data indicate that there is measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

Loans and receivables
The Group first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant. If it is determined that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, the asset is included in a group of financial assets with similar credit risk characteristics and that group of financial assets is collectively assessed for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognized are not included in a collective assessment of impairment.

If there is objective evidence that an impairment loss on loans and receivables carried at amortized cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future expected credit losses that have not been incurred) discounted at the financial assets' original effective interest rate (i.e., the effective interest rate computed at initial recognition). The carrying amount of the asset is reduced through the use of an allowance account. The amount of the loss shall be recognized in profit or loss during the period in which it arises. Interest income continues to be recognized based on the original effective interest rate of the asset.

For the purpose of a collective evaluation of impairment, financial assets are grouped on the basis of such credit risk characteristics as past-due status and term.

Future cash flows in a group of financial assets that are collectively evaluated for impairment are estimated on the basis of historical loss experience for assets with credit risk characteristics similar to those in the group. Historical loss experience is adjusted on the basis of current observable data to reflect the effects of current conditions that did not affect the period on which the historical loss experience is based and to remove the effects of conditions in the historical period that do not exist currently. The methodology and assumptions used for estimating future cash flows are reviewed regularly by the Group to reduce any differences between loss estimates and actual loss experience.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed. Any subsequent reversal of an impairment loss is recognized in the consolidated profit or loss to the extent that the carrying value of the asset does not exceed its cost or amortized cost at the reversal date.

Fair value measurement, 'day 1' difference and offsetting provisions under PFRS 9 and PAS 39 are substantially the same.

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

Input Value-added Taxes (VAT)
Input VAT represents VAT imposed on the Group by its suppliers and contractors for the acquisition of goods and services required under Philippine taxation laws and regulations. Input VAT is recognized as an asset and will be used to offset the Group's Output VAT liabilities. Input VAT is stated at its net realizable value (NRV).

Spare Part Inventories
Spare part inventories are carried at the lower of cost and net realizable value (NRV). Cost incurred in bringing spare part inventories to its present location and conditions includes purchase cost on a moving average basis.

Prepayments
Prepaid expenses are expenses paid in advance and recorded as asset before they are utilized. Prepaid expenses that are expected to be realized for not more than twelve months after the reporting date are classified as current assets; otherwise these are classified as other noncurrent assets.

Creditable Withholding Taxes (CWT)
CWTs under "Other current assets" account in the consolidated statement 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 subject to the rules on Philippine income taxation. CWTs which are expected to be utilized as payment for income taxes within twelve months are classified as current assets. CWTs are stated at their estimated NRV.

Asset Held for Sale
The Group classifies an asset as held for sale under PFRS 5, *Noncurrent Assets Held for Sale and Discontinued Operations* when the asset's carrying amount will be recovered principally through a sale transaction rather than through continuing use and the following criteria are met as of the financial reporting date:

(a) The asset is available for immediate sale in its present condition subject only to terms that are usual and customary for sales of such assets; and
(b) The sale must be highly probable.

In the case of an investment in associate and joint venture (or portion thereof) that qualifies as an asset held for sale, the Group ceases to account for such investment (or portion thereof) under the equity method from the time it is reclassified as held for sale and thereby accounts for it in accordance with PFRS 5.

Property and Equipment
Property and equipment, except land, are carried at cost less accumulated depreciation and amortization and any impairment in value. Land is carried at cost less any impairment in value. The initial cost of property and equipment consists of its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Cost also includes: (a) interest and other financing charges on borrowed funds specifically used to finance the acquisition of property and equipment to the extent incurred during the period of installation and construction; and (b) asset retirement obligations (ARO) specifically on property and equipment installed/constructed on leased properties.

The Group is contractually required under various contracts to restore leased property to its original condition and to bear the cost of dismantling and deinstallation at the end of the contract period. The Group recognizes the present value of these obligations and capitalizes these costs as part of the carrying value of the related property, plant and equipment accounts, and depreciates on a straight-line basis over the useful life of the related property, plant and equipment or the contract period, whichever is shorter. The amount of ARO is recognized at present value and the related accretion is recognized as interest expense.

Major repairs are capitalized as part of property and equipment only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the items can be measured reliably. All other repairs and maintenance are charged to profit or loss as incurred.

Depreciation and amortization of property and equipment commences once the assets are available for use and computed on a straight-line basis over the estimated useful lives (EULs) of the property and equipment as follows:

	Years
Machinery and equipment - wind	25
Machinery and equipment - solar and hydro	25
Buildings and improvements	20
Land improvements	5
Transportation equipment	5
Furniture and fixtures	3

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

When property and equipment are retired or otherwise disposed of, the cost and the related accumulated depreciation and amortization and accumulated provision for impairment losses, if any, are removed from the accounts and any resulting gain or loss is credited to or charged to profit or loss.

Construction in progress, included in property and equipment, is stated at cost. Cost of construction in progress includes cost of construction, capitalized borrowing cost 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 completed and ready for use.

Project Development Costs

The Group expenses all project-related costs until management deems a project is probable of being technically, commercially and financially viable. The Group capitalizes project-related costs such as project development costs in accordance with PAS 16 generally once management deems a project to be probable of being technically, commercially and financially viable. These include direct expenses in relation to the various renewable project of the Group, that will eventually be capitalized as part of property, plant and equipment.

Advances to Contractors

Advances to contractors are advance payments in relation to the Group's construction activities of its coal-fired power plant. These are recouped through reduction against progress billings as the construction progresses. Advances to contractors are carried at cost less impairment losses, if any.

Investment Property
Investment property is initially measured at cost, including transaction costs (e.g., survey costs, registration fees, legal fees). Subsequent to initial recognition, investment property is carried at cost less accumulated depreciation and any impairment losses. Additions, renewals and betterments are capitalized while minor expenditures for repairs and maintenance are directly charged to operations.

Investment properties are derecognized when either they have been disposed of or when the investment property is permanently withdrawn from use on which no future economic benefit is expected from its disposal. Any gain or loss on the retirement or disposal of an investment property is recognized in profit or loss in the year of retirement or disposal.

Transfers are made to investment property when there is a change in use, evidenced by ending of owner-occupation, commencement of an operating lease to another party. Transfers are made from investment property when, and only when, there is a change in use, evidenced by commencement of owner-occupation or commencement of development with a view to sell. Transfers among investment properties, owner-occupied properties and inventories do not change the carrying amount of the property transferred and they do not change the cost of the property for measurement or for disclosure purposes.

Costs not qualifying for capitalization are recognized in the consolidated profit or loss.

Investments in Associate and Joint Ventures
Investments in associate and joint ventures are accounted for using the equity method, less accumulated provision for impairment losses, if any. An associate is an entity in which the Group has a significant influence and which is neither a subsidiary nor a joint venture. Significant influence is the power to participate in the financial and operating policy decisions of the investee, but has no control or joint control over those policies. A joint venture is a type of joint arrangement whereby the parties that have joint control of the arrangement have rights to the net assets of the joint venture. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require unanimous consent of the parties sharing control. On acquisition of the investment, the excess of the cost of investment of the investor's share in the net fair value of the investee's identifiable assets, liabilities and contingent liabilities is included in the carrying amount of the investments and is not amortized.

The Group discontinues applying the equity method when its investment in an investee company is reduced to zero or when significant influence over the investee is lost or given up. Accordingly, additional losses are not recognized unless the Group has guaranteed certain obligations of the investee company. When the investee company subsequently reports profits, the Group resumes recognizing its share of the profits only after its share of the profits equals the share of net losses not recognized during the period the equity method was suspended.

Bill Deposits and Refundable Deposits
Bill deposit and refundable deposits are measured at amortized cost. Refundable deposits pertain to deposits on utility subscriptions, rental deposits and security deposits which shall be applied against unpaid utility expenses and rental expenses upon termination of the contracts. Bill deposit pertains to the deposit with Meralco equivalent to the RES customer's average billing in the immediately preceding twelve (12) months or in case of a newly connected RES's customer, based on projected demand and/or energy of such customer. Bill deposit will be applied against unpaid balance to Meralco.

Leasehold Rights
Leasehold rights with finite lives are amortized using the straight-line method over the remaining leaser term of the agreements and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortization period and the amortization method for an intangible asset with a finite useful life are reviewed at least at the end of each reporting period.

Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are accounted for by changing the amortization period or method, as appropriate, and are treated as changes in accounting estimates. The amortization expense on intangible assets with finite lives is recognized in the consolidated statement of comprehensive income in the expense category consistent with the function of the intangible assets. Gains or losses arising from derecognition of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognized in the consolidated statement of comprehensive income when the asset is derecognized.

Right-of-Way
Easement right of way acquired for an indefinite use is classified as an intangible asset and is carried at cost. This is subject to an annual impairment test.

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 non-controlling interest in the acquiree. For each business combination, the acquirer measures the non-controlling interest in the acquiree either at fair value or at the proportionate share of the acquiree's identifiable net assets. Acquisition costs are expensed as incurred.

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

If the business combination is achieved in stages, the acquisition date fair value of the acquirer's previously held equity interest in the acquiree is remeasured to fair value at the acquisition date and included under "Remeasurement gain/loss arising from business combination" in profit or loss.

Any contingent consideration to be transferred by the acquirer will be recognized at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration which is deemed to be an asset or liability will be recognized in accordance with PFRS 9 and PAS 39 either in profit or loss or as a change to other comprehensive income. If the contingent consideration is classified as equity, it should not be remeasured until it is finally settled within equity.

Goodwill is initially measured at cost being the excess of the aggregate of the consideration transferred and the amount recognized for non-controlling interest over the net identifiable assets acquired and liabilities assumed. If this consideration is lower than the fair value of the net assets of the subsidiary acquired, the difference is recognized in profit or loss as bargain purchase gain. The Group reassess whether it has correctly identified all of the assets acquired and all of the liabilities assumed and reviews the procedures used to measure amounts to be recognized at the acquisition date if the reassessment still results in an excess of the fair value of net assets acquired over the aggregate consideration transferred, then the gain is recognized in profit or loss.

After initial recognition, goodwill is measured at cost less any accumulated impairment loss. Goodwill is reviewed for impairment, annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired. For purposes 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), or groups of CGUs, that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the Group are assigned to those units or groups of units.

Each unit or group of units to which the goodwill is allocated should:

- represent the lowest level within the Group at which the goodwill is monitored for internal management purposes; and
- not be larger than an operating segment determined in accordance with PFRS 8, *Operating Segments*.

Impairment is determined by assessing the recoverable amount of the CGU (or group of CGUs), to which the goodwill relates. Where the recoverable amount of the CGU (or group of CGUs) is less than the carrying amount, an impairment loss is recognized. Where goodwill forms part of a CGU (or group of CGUs) and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in these circumstances is measured based on the relative values of the operation disposed of and the portion of the CGU retained. If the acquirer's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities exceeds the cost of the business combination, the acquirer shall recognize immediately in the consolidated statement of income any excess remaining after reassessment.

If the initial accounting for a business combination can be determined only provisionally by the end of the period in which the combination is effected because either the fair values to be assigned to the acquiree's identifiable assets, liabilities or contingent liabilities or the cost of the combination can be determined only provisionally, the acquirer shall account for the combination using those provisional values. The acquirer shall recognize any adjustments to those provisional values as a result of completing the initial accounting within twelve months of the acquisition date as follows: (i) the carrying amount of the identifiable asset, liability or contingent liability that is recognized or adjusted as a result of completing the initial accounting shall be calculated as if its fair value at the acquisition date had been recognized from that date; (ii) goodwill or any gain recognized shall be adjusted by an amount equal to the adjustment to the fair value at the acquisition date of the identifiable asset, liability or contingent liability being recognized or adjusted; and (iii) comparative information presented for the periods before the initial accounting for the combination is complete shall be presented as if the initial accounting has been completed from the acquisition date.

Impairment of Nonfinancial Assets

The Group assess at the reporting date to determine whether there is any indication that an asset may be impaired or whether there is any indication that an impairment loss previously recognized for an asset in prior years may no longer exist or may have decreased. If any such indication exists and when the carrying value of an asset exceeds its estimated recoverable amount, the asset or the cash-generating unit to which the asset belongs is written down to its recoverable amount.

The recoverable amount of an asset is the greater of its net selling price and value in use. Recoverable amounts are estimated for individual assets or, if it is not possible, for the cash-generating unit to which the asset belongs.

In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

An impairment loss is recognized only if the carrying amount of an asset exceeds its recoverable amount. An impairment loss is charged against operations in the year in which it arises. A previously recognized impairment loss is reversed only if there has been a change in estimate used to determine the recoverable amount of an asset, however, not to an amount higher than the carrying amount that would have been determined (net of any accumulated depreciation and amortization), had no impairment loss been recognized for the asset in prior years. A reversal of an impairment loss is included in the results of operations in the year when the reversal is recognized.

Equity

Capital stock is measured at par value for all shares issued. When the shares are sold at premium, the difference between the proceeds and the par value is recognized as additional paid-in capital. Direct costs incurred related to the equity issuance are deducted from equity, net of any related tax benefits. If additional paid-in capital is not sufficient, the excess is charged against retained earnings.

Subscriptions receivable pertains to the uncollected portion of the subscribed shares and is presented as reduction from equity.

Retained earnings represent accumulated earnings (losses) of the Group. Retained earnings is restricted to the extent of the undistributed earnings of the subsidiaries, associates and joint venture.

Other Comprehensive Income (OCI)

OCI are items of income and expense that are not recognized in determining the profit or loss for the year in accordance with PFRS.

Remeasurement gain on defined benefit obligation

Remeasurements on actuarial gains or losses are recognized immediately in other comprehensive income, net of tax, in the period in which they arise. Remeasurements are not reclassified to profit or loss in subsequent periods.

Revenue and Income Recognition

Revenue and Income Recognition under PFRS 15

PFRS 15 supersedes PAS 11, *Construction Contracts*, PAS 18, *Revenue* and related interpretations and it applies, with limited exceptions, to all revenue arising from contracts with its customers. PFRS 15 establishes a five-step model to account for revenue arising from contracts with customers and requires that revenue be recognized at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. PFRS 15 requires entities to exercise judgement, taking into consideration all of the relevant facts and circumstances when applying each step of the model to contracts with their customers. The standard also specifies the accounting for the incremental costs of obtaining a contract and the costs directly related to fulfilling a contract. In addition, the standard requires relevant disclosures.

Revenue from contracts with customers is recognized when control of the goods or services are transferred to the customer at an amount that reflects the consideration to which the Group expects to be entitled in exchange for those goods or services. The Group has generally concluded that it is the principal in its revenue arrangements. The Group assessed that it has a single performance obligation from rendering of service and the related revenue is recognized over time. Other income is recognized at a point in time.

Revenue and Income Recognition under PAS 18
Revenue is recognized to the extent that it is probable that economic benefits will flow to the Group and the revenue can be measured reliably. The Group has assessed its revenue arrangements against specific criteria in order to determine if it is acting as a principal or as an agent. The Group has concluded that it is acting as a principal in all of its revenue arrangements.

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

Energy Sales (Prior to and Upon Adoption of PFRS 15)
Energy sales is recognized upon actual delivery of converted electricity from the 51.9M NorthWind Renewable Energy Plant (REP) at Bagui Farm and 18MW DC Solar Power Plant of MSEI at Bais, Negros Oriental and from the Group's retail electricity supply unit.

The tariff on the generation of REP's original twenty (20) turbines (Phases I & II) is a FIT rate specific to NPDC of ₱5.76/kWh, as approved by the ERC in its decision dated June 30, 2014. The FIT specific to NPDC is lower than the national FIT and is valid for twenty (20) years, less the actual years of operation as provided for under the FIT Rules.

The tariff on the new six (6) turbines (Phase III) shall be the national FIT of ₱8.53/kWh, subject to compliance by NPDC of the requirements under the FIT System. Being a new plant and established under the incentives granted under RA 9513, it shall have FIT period of twenty (20) years.

On December 28, 2016, the MSEI received provisional authority to operate (PAO) by the ERC dated December 8, 2016 that allows the entity to be entitled to a FIT rate of ₱8.69/kWh for a period of twenty (20) years from March 13, 2016. On February 6, 2017, MSEI received the Certificate of Compliance (COC) from Energy Regulation Commission (ERC).

Revenue from sale of electricity through Retail Electricity Supply Contract is composed of generation charge from monthly energy supply with various contestable customers and is recognized monthly based on the actual energy delivered. The basic energy charges for each billing period are inclusive of generation charge and retail supply charge.

Upon adoption of PFRS 15, the Group identified the sale of electricity as its performance obligation since the customer can benefit from it in conjunction with other readily available resources and it is also distinct within the context of the contract. The performance obligation qualifies as a series of distinct services that are substantially the same and have same pattern of transfers. The Group concluded that the revenue should be recognized over time since the customers simultaneously receives and consumes the benefits as the Group supplies electricity.

Dividend income (Prior to and Upon Adoption of PFRS 15)
Dividend income is recognized when the Group's right to receive the payment is established, which is generally when shareholders of the investees approve the dividend.

Rental income (Under PAS 17)
Rental income under noncancellable leases are recognized on a straight-line basis over the term of the lease.

Management fees (Prior to and Upon Adoption of PFRS 15)
Management fees for services rendered are recognized when earned.

Interest income (Prior to and Upon Adoption of PFRS 15)
Interest income is recognized as it accrues using the EIR.

Other income (Prior to and Upon Adoption of PFRS 15)
Other income is recognized when earned.

Costs of Sales and Expenses
Costs and expenses are recognized in the consolidated statement of comprehensive income when a decrease in economic benefits related to a decrease in an asset or an increase in liability has arisen that can be measured reliably. These are generally recognized as they are incurred and measured at the fair value of the consideration paid or payable.

Deferred Financing Cost
Deferred financing cost, including debt issue costs, represent the fees incurred to obtain financing and are accounted for as deduction to the related debt. Deferred financing costs are amortized using the EIR method over the terms of the related long-term loans.

Employee Benefits
The Group has a funded, defined benefit retirement plan which requires contributions to be made to a separately administered fund. The cost of providing benefits under the defined benefit plan is actuarially determined using the projected unit credit method.

Defined benefit costs comprise the following:

- Service cost
- Net interest on the net defined benefit liability or asset
- Remeasurements of net defined benefit liability or asset

Service costs which include current service costs, past service costs and gains or losses on non-routine settlements are recognized as expense in profit or loss. Past service costs are recognized when plan amendment or curtailment occurs. These amounts are calculated periodically by independent qualified actuaries.

Net interest on the net defined benefit liability or asset is the change during the period in the net defined benefit liability or asset that arises from the passage of time which is determined by multiplying the discount rate based on government bonds times the net defined benefit liability or asset. Net interest on the net defined benefit liability or asset is recognized as expense or income in profit or loss.

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

Income Taxes
Current tax
Current tax is the expected tax payable on the taxable income for the period, using tax rates enacted or substantively enacted at the end of the reporting period.

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, with certain exceptions, at the reporting date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

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

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.

Deferred tax assets and liabilities relating to items recognized directly in equity are recognized in equity and not in the consolidated statement of comprehensive income.

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

Foreign Currency Translation

Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency. Transactions in foreign currencies are initially recorded in the functional currency rate ruling at the date of the transactions. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rate of exchange ruling at the reporting date. Exchange gains or losses arising from foreign exchange transactions are credited to or charged against operations for the period.

The functional currency of AMPLC, KPLHC, ACEHI SG, ACEHL ACEC, ACNBV, ACEV and AMNHBV and AMNC is the US Dollar. As of reporting date, the assets and liabilities of foreign subsidiaries, with functional currencies other than the functional currency of the Parent Company, are translated into the presentation currency of the Group using the closing foreign exchange rate prevailing at the reporting date, and their respective income and expenses at the weighted average rates for the year. The exchange differences arising on the translation are recognized in OCI under "Cumulative Translation Adjustment". On disposal of a foreign operation, the component of OCI relating to that particular foreign operation shall be recognized in profit or loss in the consolidated statement of comprehensive income.

Segment Reporting

The Group's operating businesses are organized and managed separately according to the nature of the products and services provided, with each segment representing a strategic business unit that offers different products and serves different markets. Financial information on operating segments is presented in Note 23 to the consolidated financial statements.

Provisions
Provisions are recognized when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. Where the Group expects a provision to be reimbursed, the reimbursement is recognized as a separate asset but only when the reimbursement is virtually certain. Provisions are reviewed at each financial reporting date and adjusted to reflect the current best estimate.

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

Events After the Financial Reporting Date
Post year-end events up to the date when the consolidated financial statements are authorized for issue that provide additional information about the Group's position at the reporting date (adjusting events) are reflected in the consolidated financial statements. Post year-end events that are not adjusting events are disclosed in the consolidated financial statements when material.

3. Significant Judgments, Estimates and Assumptions

The preparation of the accompanying Group consolidated financial statements in compliance with PFRS requires management to make estimates and assumptions that affect the amounts reported in the consolidated financial statements and accompanying notes. The estimates and assumptions used in the accompanying Group consolidated financial statements are based on 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
In the process of applying the Group's accounting policies, management has the following judgment, apart from those involving estimations, which has the most significant effect on the amounts recognized in the consolidated financial statements.

Exercise of Significant Influence
The Group determined that it exercises significant influence over its associates (see Note 12) by considering, among others, its ownership interest (holding 20% or more of the voting power of the investee), board representation and participation on board sub-committees, and/or other contractual terms.

As discussed in Note 2, the Group signed a share purchase agreement to sell to Aboitiz Power Corp. an effective 12.20% interest in GMCPLC, with the Group retaining an effective interest in GMCPLC of 8.13%. The retained interest in GMCPLC is judged and accounted for by management as investment in associate for the reason that the significant influence of the Group over the GMCPLC before and after the execution of the agreement did not change. The Group only disposed of its limited partnership rights over GMCPLC, and retained its general partnership involvement and accordingly, the general partnership rights. The Group's significant influence relating to the retained general partnership interest is manifested in the Group's representation in the Board of both companies through its and the veto rights, which are not protective rights, over certain key management activities.