



**Alsons Consolidated Resources, Inc.**

Alsons Building, 2286 Chino Roces Avenue  
1231 Makati City, Philippines  
Tel. Nos. (632) 8982-3000  
Website: [www.acr.com.ph](http://www.acr.com.ph)

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June 10, 2020

**SECURITIES AND EXCHANGE COMMISSION**

Market and Securities Regulation Department  
North Wing, Ground Floor, Secretariat Building  
PICC, Pasay City

Attention: **Mr. Vicente Graciano P. Felizmenio, Jr.**  
*Director, Market and Securities Regulation Department*

Re: Commercial Paper Program

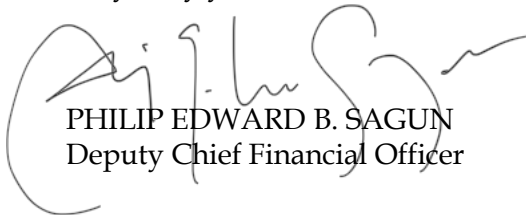
Gentlemen:

We write in connection with the Securities and Exchange Commission's (the "Commission") letter dated May 28, 2020 (the "SEC Letter") in relation to the Registration Statement filed by Alsons Consolidated Resources, Inc. (the "Company") for its proposed commercial paper issuance of up to Php1 Billion.

In compliance with the SEC Letter, please find attached the Company's replies to the Commission's comments in the attached Comment and Response Sheet, duly signed on each and every page.

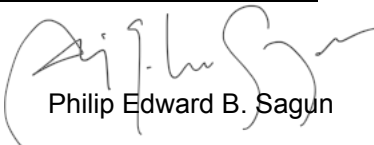
We hope you find the explanations in order.

Very truly yours,

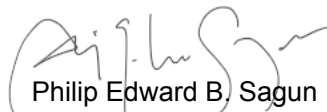


PHILIP EDWARD B. SAGUN  
Deputy Chief Financial Officer

	Summary of Comments		
	LIST OF REQUIREMENTS ON REGISTRATION STATEMENT	SEC Comments	ACR Reply
	<b>PART I - INFORMATION REQUIRED IN PROSPECTUS</b>		
Color if Done	FRONT OF THE REGISTRATION STATEMENT AND OUTSIDE FRONT COVER PAGE OF PROSPECTUS (Part VI, paragraph (A) of Annex C, as amended)		
1	The date of the prospectus	Please update to latest date of filing.	Updated.
	<b>INSIDE FRONT COVER AND FIRST TWO OR MORE PAGES OF PROSPECTUS (Part VI, paragraph (B) of Annex C, as amended)</b>		
2	If not included on the cover of the prospectus, provide the following information on the inside front cover:		
3	a. Total proceeds raised by the offering	Please update the net proceeds. Refer to Section "Use of Proceeds" for additional comments. Revisit reference to pages	Reference page was updated to reflect change in pagination. See page 3.
4	b. Brief description of the UOP from the offering	Inconsistent disclosure. The use of proceeds in the section "Use of Proceeds" disclosed that it is for working capital and general corporate purposes.	UOP disclosure was changed for consistency. See page 3.
5	Table of Contents	Revisit page for Directors and Senior Management	TOC was updated.
6	Summary paragraph or key points characterizing the risks of the offering under the caption "Risks of Investing". More detailed information shall be provided in the body of the prospectus.	Include in the Risk relating to the company and its business the Risk on delay or failure in operations of the Power Plants; and the risk brought by the COVID-19 under the risk relating to	Updated
7	In the case of a prospectus that has become effective, the following statement in bold face 12-point type, prominently displayed, and signed by the president under oath:  ALL REGISTRATION REQUIREMENTS HAVE BEEN MET AND ALL INFORMATION CONTAINED IS TRUE AND CURRENT.	To be provided once the RS will become effective.	To be provided once the RS will become effective.
8	<b>USE OF PROCEEDS</b> (Part VI, paragraph (E) of Annex C, as amended)	1. Inconsistent disclosure of net proceeds as compared to page 3 of the first pages of the Prospectus; 2. Update the SEC Filing Fees and LRF. 3. Provide breakdown of the net Proceeds to the intended use of proceeds, working capital and general corporate purposes, in quarterly basis. 4. Disclose specific use of proceeds under the general corporate purposes and further breakdown of the working capital. 5. Disclose the details/nature of the various projects where it was partially financed by the short term loan.	
9	State the principal purposes for which the net proceeds of the offering will be used, indicating the approximate amount intended to be used for each such purpose. Where the registrant has no current specific plan for the proceeds, or a significant portion thereof, the registrant shall so state and discuss the principal reasons for the offering.		1. UOP disclosure was updated 2. SEC Filing Fees and LRF are consistent with the amount disclosed in the RS form filed. 3-5. The UOP was revised. UOP is to partially finance the redemption of the Company's maturing CPs to reflect its requirements at the time of the issuance which is estimated based on the expected timing of the granting of the Permit.
10	Where less than all of the securities to be offered may be sold and more than one use is listed for the proceeds, the registrant shall indicate the order of priority of such purposes and discuss its plans if substantially less than the maximum proceeds are obtained.	Please indicate the order of priority of such purposes.	There is only a single purpose for the proceeds.
	<b>PLAN OF DISTRIBUTION</b> (Part VI, paragraph (I), (J) and (K) of Annex C, as amended)		
	*This section requires the disclosure of the amount of compensation to the selling agents and underwriters, and the nature of any relationships between them and the registrant. After reviewing the information contained herein, a potential investor should be in a better position to assess the extent to which he may rely upon any recommendation by the underwriter or selling agent to buy the securities.		
	<b>Underwriters and underwriting obligation</b>		
11	State the name of the lead underwriter/s and the respective amounts underwritten. Identify each underwriter having a material relationship with the registrant and describe the nature of the relationship. State briefly the nature of the obligation of the underwriter/s to take the securities.	Disclose the amount underwritten.	Disclosed.
	<b>* Brokers/Dealers' Compensation</b>		
12	State briefly the discounts and commissions to be allowed or paid to Broker Dealers, including all cash, securities, contracts or other considerations to be received by any Broker Dealer in connection with the sale of the securities.	Please disclose, if applicable	Not applicable
	<b>* Finders</b>		
13	Identify any finder and, if applicable, describe the nature of any material relationship between such finder and the registrant, its officers, directors, principal stockholders, finders or promoters or the underwriter/s, or if there is a lead underwriter/s, including in each case, affiliates or associates thereof.	Please disclose, if applicable.	Not applicable
	<b>DESCRIPTION OF SECURITIES TO BE REGISTERED</b> (Part II, paragraph (B) of Annex C)		
	<b>Debt Securities</b>		
14	(iv) Describe all other material provisions giving or limiting the rights of debtholders. Please disclose.	Please disclose.	Please see additional disclosure on page 45.

  
Philip Edward B. Sagun

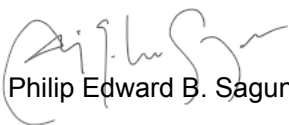
15	(v) Give the name of any trustee/s designated by the indenture and describe the circumstances under which the trustee is required to act on behalf of the debtholders.	Please disclose if applicable.	The relevant provision based on the Agreement between the Issuer and the Facility Agent was disclosed. See page 47.
16	(vi) Disclose the company's financial ratios such as current, solvency, debt-to-equity ratios, and/or other regulatory ratios that it must meet and maintain.	Please disclose.	Disclosed. See page 49.
17	<b>Market Information for Securities Other than Common Equity</b> If securities other than common equity are to be registered and there is an established public trading market for such securities, provide market information with respect to such securities comparable to that required in paragraph (A)(1) of Part II of "Annex C".	Please disclose.	Discussion about PDEx was expanded similar to the disclosures made by other CP issuers. See page 48.
18	<b>INFORMATION WITH RESPECT TO THE REGISTRANT</b> <b>Business</b> <b>(Part I, paragraph (A) of "Annex C", as amended)</b>	Please update information as of the latest practicable date.	
19	<b>BUSINESS OF ISSUER</b> (a) Business of Issuer : This section shall describe in detail what business the registrant does and proposes to do , including what products or goods are or will be produced or services that are or will be rendered . Briefly describe the business of registrant and its significant subsidiaries and include, to the extent material to an understanding of the registrant:	Incomplete. Please indicate the relative size and financial and market strengths of the registrant's competitors.	Please see sections "Competition" and "Competitive Strengths" on pages 72 and 74, respectively.
20	Competition. Describe the industry in which the registrant is selling or expects to sell its products or services, and where applicable , any recognized trends within that industry. Describe the part of the industry and the geographic area in which the business competes or will compete. Identify the principal methods of competition (price, service, warranty or product performance). Name the principal competitors that the registrant has or expects to have in its area of competition. Indicate the relative size and financial and market strengths of the registrant's competitors. State why the registrant believes that it can effectively compete with other companies in its area of competition;		Please see sections "Competition" and "Competitive Strengths" on pages 72 and 74, respectively.
21	Suppliers. Sources and availability of raw materials and the names of principal suppliers; if the registrant is or is expected to be dependent upon one or a limited number of suppliers for essential raw materials, energy or other items, describe. Describe any major existing supply contracts;	If the registrant is or is expected to be dependent upon one or a limited number of suppliers for essential raw materials, energy or other items, describe.	Please see additional disclosure on page 66.
22	Related Party. Transactions with and/or dependence on related parties;	Please disclose	New RPT section was added. See page 66.
23	Employees. State the number of the registrant's present employees and number of employees it anticipates to have within the ensuing twelve (12) months. Indicate the no. by type of employee (i.e. clerical, operations, administrative, etc.) whether or not any of them are subject to Collective Bargaining Agreements (CBA) and the expiration dates of any CBA. If the registrant's employees are on strike, or have been in the past three (3) years, or are threatening to strike, describe the dispute. Indicate any supplemental benefits or incentive arrangements the registrant has or will have with its employees.	a 1. Disclose if the registrant's employees are on strike, or have been in the past three (3) years, or are threatening to strike, describe the dispute; 2. Indicate any supplemental benefits or incentive arrangements the registrant has or will have with its employees.	1. Please see additional disclosure on Page 72.
24	<b>PROPERTIES</b> <b>(Part I, paragraph (B) of Annex "C" as amended)</b> Give the location and describe the condition of the principal properties (such as real estate, plant and equipment, mines, patents, etc.) that the registrant and its subsidiaries own. Disclose any mortgage, lien or encumbrance over the property and describe the limitations on ownership or usage over the same . Indicate also what properties it leases, the amount of lease payments, expiration dates and the terms of renewal options. Indicate what properties the registrant intends to acquire in the next twelve (12) months, the cost of such acquisitions, the mode of acquisition (i.e. by purchase, lease or otherwise) and the sources of financing it expects to use.	1. Indicate if there are properties it leases, the amount of lease payments, expiration dates and the terms of renewal options on the leased property; 2. Indicate what properties the registrant intends to acquire in the next twelve (12) months, the cost of such acquisitions, the mode of acquisition (i.e. by purchase, lease or otherwise) and the sources of financing it expects to use.	1. New Lease Commitments Section was added. See page 71. 2. See new sub-section Future Plans to Acquire Properties on page 71.
	<b>MARKET FOR ISSUER'S COMMON EQUITY AND RELATED STOCKHOLDERS' MATTERS</b> <b>(Part II paragraph (A)(1) through (4) of "Annex C"</b>		
	<b>MARKET INFORMATION</b>		
25	(b) If the information called for by paragraph (A) of this Part is being presented in a registration statement filed pursuant to Section 12 or in an annual report filed pursuant to Section 17 of the Code, the document shall also include price information as of the latest practicable trading date, and, in the case of securities to be issued in connection with an acquisition, business combination or other reorganization, as of the trading date immediately prior to the public announcement of such transaction	Please provide the share's closing price as at the latest practicable date.	Closing price was disclosed as at the latest practicable date. See page 83.
26	<b>HOLDERS</b> (a) Set forth the approximate number of holders of each class of common equity of the registrant as of the latest practicable date but in no event more than ninety (90) days prior to filing the registration statement. Include the names of the top twenty (20) shareholders of each class and the number of shares held and the percentage of total shares outstanding held by each.	Please update information as of April 30, 2020.	Updated. See page 84.

  
Philip Edward B. Sagun

	<b>ITEM 6. MANAGEMENT'S DISCUSSION AND ANALYSIS OR PLAN OF OPERATIONS</b>		
27	(ii) Any events that will trigger direct or contingent financial obligation that is material to the company, including any default or acceleration of an obligation ;	Please provide disclosure for this in this section.	Please see new section Other Required Disclosures on page 109.
28	(iii) All material off-balance sheet transactions, arrangements, obligations (including contingent obligations), and other relationships of the company with unconsolidated entities or other persons created during the reporting period ;	Please provide disclosure for this in this section.	Please see new section Other Required Disclosures on page 109.
29	(iv) Any material commitments for capital expenditures, the general purpose of such commitments, and the expected sources of funds for such expenditures should be described; Please provide disclosure for this in this section.	Please provide disclosure for this in this section.	Please see new section Other Required Disclosures on page 109.
30	(v) Any known trends, events or uncertainties that have had or that are reasonably expected to have a material favorable or unfavorable impact on net sales or revenues or income from continuing operations should be described. If the registrant knows of events that will cause a material change in the relationship between costs and revenues (such as known future increases in cost of labor or materials or price increases or inventory adjustments), the change in the relationship shall be disclosed;	Please provide disclosure for this in this section.	Please see new section Other Required Disclosures on page 109.
31	(vi) Any significant elements of income or loss that did not arise from the registrant's continuing operations;	Please provide disclosure for this in this section.	Please see new section Other Required Disclosures on page 109.
32	(viii) Any seasonal aspects that had a material effect on the financial condition or results of operations.	Please provide disclosure for this in this section.	Please see new section Other Required Disclosures on page 109.
	<b>PART III - CONTROL AND COMPENSATION INFORMATION</b>		
	<b>ITEM 9. DIRECTORS AND EXECUTIVE OFFICERS OF THE ISSUER</b>		
	<b>DIRECTORS AND EXECUTIVE OFFICERS</b>		
33	Directors, Executive Officers, Promoters and Control Persons: This section requires disclosure of information concerning the background of the registrant's officers, directors, and other key personnel. A potential investor who reads this section should be able to consider whether or not these persons have adequate background and experience to develop and operate the registrant's business and make it successful.		
34	INVOLVEMENT IN CERTAIN LEGAL PROCEEDINGS (Occurred during the past 5 years and material to evaluation)	Please update information as of April 30, 2020	Information was updated as of April 30, 2020. See page 91.
	<b>ITEM 10. EXECUTIVE COMPENSATION</b> (Part IV, Paragraph (B) of "Annex C")		
	<b>Compensation of Directors</b>		
35	(a) Standard Arrangements. Describe any standard arrangements, stating amounts, pursuant to which directors of the registrant are compensated, or are to be compensated, directly or indirectly, for any services provided as a director, including any additional amounts payable for committee participation or special assignments, for the last completed fiscal year and the ensuing year. Please disclose the total compensation received by each Director of the Company, pursuant to Sec 29, of the Revised Corporation Code.	Please disclose the total compensation received by each Director of the Company, pursuant to Sec 29, of the Revised Corporation Code.	Please see page 89.
	<b>ITEM 11. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT</b> (Part IV, Paragraph (C) of "Annex C" as amended)		
36	(1) Security Ownership of Certain Record and Beneficial Owners	Please update information as of April 30, 2020	Updated. See page 93.
37	(2) Security Ownership of Management	Please update information as of April 30, 2020	Updated. See page 94.
38	(1) Title of class (2) Name of beneficial (3) Amount and nature of (4) Citizenship (5) Percent Owner beneficial ownership of Class	Disclose the nature of beneficial ownership of Mr. Roberto V. San Jose	See page 94.
39	<b>ITEM 12. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS</b>	Provide a reference to the specific Notes in the Financial Statements.	New RPT section was added. See page 66.
	<b>PART IV. CORPORATE GOVERNANCE</b>		
	The following information, as declared and approved by the Board of Directors of the company, shall be discussed:		
40	(a) The evaluation system established by the company to measure or determine the level of compliance of the Board of Directors and top-level management with its Manual of Corporate Governance;	Please include the discussion/disclosure of the information required under this section.	New sub-section "Evaluation System" was added. See page 95.
41	(b) Measures being undertaken by the company to fully comply with the adopted leading practices on good corporate governance;	Please include the discussion/disclosure of the information required under this section.	New sub-section "Measures being undertaken for compliance" was added. See page 95.
42	(c) Any deviation from the company's Manual of Corporate Governance. It shall include a disclosure of the name and position of the person/s involved, and the sanction/s imposed on said individual; and	Please include the discussion/disclosure of the information required under this section.	New sub-section "Deviations" was added. See page 95.



43	(d) Any plan to improve corporate governance of the company.	Please include the discussion/disclosure of the information required under this section.	New sub-section "Future Plans for Improvement" was added. See page 95.
44	12. FINANCIAL STATEMENTS (SRC Rules 68, as amended and 68.1)	Consolidated Audited Financial Statement for the year ended Dec 31, 2019 has been forwarded to the Office of the General Accountant for review. OGA will issue separate comments on the said financial statements.	
45	Statement of Management's Responsibility duly signed by Chairman, CEO & CFO [Paragraph 2(a)]	Please submit	Attached - Annual Report
46	ADDITIONAL COMPONENTS OF FINANCIAL STATEMENTS (SRC Rule 68, as amended October 2011) Legal matter paragraph in the Auditor's Report on each components: (Financial Reporting Bulletin No. 1) Reconciliation of Retained Earnings Available for Dividend Declaration (Part 1,4 (c )) A map of the conglomerate or group of companies showing the relationships between and among the company and its ultimate parent company, middle parent, subsidiaries or co-subsidiaries, and associates (Par 4(h))	Please submit	Attached - Annual Report
47	ADDITIONAL REQUIREMENTS (SRC Rule 68, as amended October 2011) A schedule showing financial soundness indicators in two comparative period as follows: 1) current/ liquidity ratios; 2) solvency ratios, debt-to-equity ratio; 3) asset-to-equity ratio; 4) interest rate coverage ratio; 5) profitability ratio and 6) other relevant ratio as the Commission may prescribe.	Please submit	Attached - Annual Report
48	EXHIBITS	Copy of listing application with PDEX	Attached - signed

  
Philip Edward B. Sagun



## **ALSONS CONSOLIDATED RESOURCES, INC.**

### **Php 2,500,000,000 Commercial Paper Program**

#### **Second Tranche: Php 1,000,000,000**

##### **Commercial Paper**

##### **91, 182, 364 days Tenor**

##### **Issue Price: Discount to face value**

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Alsons Consolidated Resources, Inc. ("ACR", the "Company" or the "Issuer") is authorized by the Securities and Exchange Commission to issue up to Php 2,500,000,000 worth of commercial paper under a shelf registration pursuant to SEC-MSRD Order No. 25, Series of 2018 (the "CP Program"). The CP Program was to be issued in one or more tranches with an initial issuance of Php 1,500,000,000 in 2018. The remaining Php 1,000,000,000 Commercial Paper will now be issued for the Second Tranche of the CP Program. The Second Tranche will have the following tenors: 91 days, 182 days, and 364 days for Series L, M and N, respectively. Series L, M and N of the Second Tranche will carry Discount Rates of 4.252%\*, 4.910%\* and 5.595%\* respectively, calculated on a true-discount basis. (See "Terms and Description of the CPs – Discount Rate").

The CPs shall be offered to the public (the "Offer") at discount to face value and in one lump sum or in tranches through the Underwriter and the Selling Agents as may be named below subject to certain conditions in the Issue Management and Underwriting Agreement executed between the Issuer and the Issue Manager/Underwriter. The CPs are intended to be listed at the Philippine Dealing & Exchange Corp. (PDEX) for secondary trading of the CPs and upon such listing, all secondary trading may be coursed through eligible PDEX Trading Participants. The Issuer has been assigned a credit rating of A plus by the Philippine Ratings Services Corporation ("PhilRatings" or "PRS") on April 30, 2020. A credit rating is not a recommendation to buy, sell, or hold the securities and may be subject to revision, suspension, or withdrawal at any time by PhilRatings.

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*Sole Issue Manager, Lead Arranger and Underwriter*

**Multinational Investment Bancorporation**

June 10, 2020

\* Note that the rates are indicative and are presented for illustration purposes only. The rates may change depending on the benchmark rates on pricing date.

**THE SECURITIES AND EXCHANGE COMMISSION HAS NOT APPROVED THESE SECURITIES OR DETERMINED IF THIS PROSPECTUS IS ACCURATE OR COMPLETE. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE AND SHOULD BE REPORTED IMMEDIATELY TO THE SECURITIES AND EXCHANGE COMMISSION.**

**ALSONS CONSOLIDATED RESOURCES, INC.**  
**ALSONS BUILDING, 2286 DON CHINO ROCES AVENUE**  
**MAKATI CITY 1231, PHILIPPINES**  
**+632 8982 3000**

ACR is offering the Second Tranche of the CP Program, with an aggregate face value of up to Php 1,000,000,000.00 (the “CPs” or the “Offer”). The CPs, which may be issued in lump sum or in tranches, shall have an interest rate fixed prior to issuance.

The CPs will be unsecured obligations of the Company and will rank *pari passu* without any preference amongst themselves and at least *pari passu* with other unsecured and unsubordinated obligations of the Company, present and future, other than obligations preferred by law. The CPs will be effectively subordinated in right of payment to all secured debt of the Company to the extent of the value of the assets securing such debt and all debt that is evidenced by a public instrument under Article 2244(14) of the Civil Code of the Philippines.

The Company expects the net Offer proceeds of the Second Tranche to amount to approximately ₱931,655,983.39. Such proceeds will be used by the Company to partially finance the redemption of its maturing Commercial Papers. See “*Use of Proceeds*” on page 37. The Sole Issue Manager, Arranger and Underwriter will receive 0.50% per annum of the aggregate face value of the CPs issued. Such amount shall be inclusive of the underwriting and selling agency fees, if applicable, and shall be deductible from the gross proceeds of the Offering.

The Company was incorporated on December 24, 1974 as Victoria Gold Mining Corporation to engage in the business of exploration of oil, petroleum and other mineral products. The corporate name was changed to Terra Grande Resources, Inc. in March 1995 and to Alsons Consolidated Resources, Inc. in June 1995 to mark the entry of the Alcantara Group. ACR’s primary purpose was consequently changed to that of an investment holding company and oil exploration was relegated as a secondary purpose. The Company’s ultimate parent company is Alsons Corporation, a company incorporated in the Philippines.

ACR’s core businesses, conducted through its various subsidiaries and associates, are grouped into main categories consisting of Energy and Power, Property Development, and Other Investments.

ACR’s investment in the Energy and Power business is through four holding firms, namely, Conal Holdings Corporation, Alsing Power Holdings, Inc., Alsons Renewable Energy Corporation, and Alsons Thermal Energy Corporation.

The Company is also engaged in property development through its subsidiaries, Alsons Land Corporation and Kamanga Agro-Industrial Economic Development Corporation.

Declaration of dividends is subject to approval by the Board of Directors. Management continuously endeavors to increase ACR’s share value through new projects and expansion programs while at the same time provide yearly dividends to its shareholders. On June 8, 2011, the Board of Directors adopted a dividend policy of annually declaring dividends from 20% of the previous year’s un-appropriated retained earnings. See “Dividends” on page 80.

Unless otherwise stated, all information contained in this Prospectus has been supplied by the Company. The Company, through its Board, having made all reasonable inquiries, accepts full responsibility for the

information contained in this Prospectus and confirms that this Prospectus contains all material information with regard to the Company, its business and operations and the CPs, which as of the date of this Prospectus is material in the context of the Offer; that, to the best of its knowledge and belief as of the date hereof, the information contained in this Prospectus are true and correct and is not misleading in any material respect; that the opinions and intentions expressed herein are honestly held; and, that there are no other facts, the omission of which makes this Prospectus, as a whole or in part, misleading in any material respect. The delivery of this Prospectus shall not, under any circumstances, create any implication that the information contained herein is correct as of any time subsequent to the date hereof.

Multinational Investment Bancorporation, the Sole Issue Manager, Arranger and Underwriter, warrants that it has, to the best of its ability, exercised the level of due diligence required under existing regulations in ascertaining that all material information contained in this Prospectus are true and correct, and that to the best of its knowledge, no material information was omitted, which was necessary in order to make the statements contained in this Prospectus not misleading.

Market data and certain industry information used throughout this Prospectus were obtained from internal surveys, market research, publicly available information and industry publications. Industry publications generally state that the information contained therein has been obtained from sources believed to be reliable, but that the accuracy and completeness of such information is not guaranteed. Similarly, internal surveys, industry forecasts and market research, while believed to be reliable, have not been independently verified and neither the Company nor the Sole Issue Manager, Arranger and Underwriter makes any representation as to the accuracy and completeness of such information.

In making an investment decision, applicants are advised to carefully consider all the information contained in this Prospectus, including the following key points characterizing potential risks in an investment in the CPs:

#### **Risks relating to the Company and its business**

- Risk on Foreign Exchange Rate Fluctuations
- Interest Rate Risks
- Liquidity Risks
- Credit Risks
- Risks relating to project cost and completion
- Risk on malfunctions and failures to operate
- Risk of insufficient fund to finance the project
- Risk on failure in operations of the Power plants
- Risk on assurance of successful implementation of business plans and strategies
- Reputational Risk of Directors and Officers of the Company
- Risk on foreign ownership limitations
- Regulatory Risks
- Competitive Risk

#### **General Risks**

- Slowdown in the Philippine economy
- Political or social instability

- Natural catastrophe and calamity
- Corona Virus Disease 2019 (COVID-19) Pandemic

### **Risks Relating to the Commercial Papers**

- Liquidity Risk – the Philippine securities markets are substantially smaller, less liquid and more concentrated than the major securities markets
- Price Risk – the CPs’ market value moves (either up or down) depending on the change in interest rates
- Retention of Ratings Risk – there is no assurance that the rating of the CPs will be retained throughout the life of the CPs

For a more detailed discussion on the risks in investing, see section on “*Risk Factors*” beginning on page 23 of this Prospectus, which, while not intended to be an exhaustive enumeration of all risks, must be considered in connection with a purchase of the CPs.

This Prospectus includes forward-looking statements. The Company has based these forward-looking statements largely on its current expectation and projections about future events and financial trends affecting its business and operations. Words including, but not limited to “believe”, “may”, “will”, “estimates”, “continues”, “anticipates”, “intends”, “expects” and similar words are intended to identify forward-looking statements. In light of the risks and uncertainties associated with forward-looking statements, investors should be aware that the forward-looking events and circumstances in this Prospectus may or may not occur. The Company’s actual results could differ significantly from those anticipated in the Company’s forward-looking statements.

The contents of this Prospectus are not to be considered as legal, business or tax advice. Each prospective purchaser of the CPs receiving a copy of this Prospectus acknowledges that he has not relied on the Sole Issue Manager, Arranger and Underwriter or Selling Agents in his investigation of the accuracy of such information or his investment decision. Prospective purchasers should consult their own counsel, accountants or other advisors as to legal, tax, business, financial and related aspects of a purchase of the CPs.

The CPs are offered solely on the basis of the information contained and the representations made in this Prospectus. No dealer, salesman or other person has been authorized by the Company or by the Sole Issue Manager, Arranger and Underwriter to issue any advertisement or to give any information or make any representation in connection with the Offer other than those contained in this Prospectus and, if issued, given or made, such advertisement, information or representation must not be relied upon as having been authorized by the Company or by the Sole Issue Manager, Arranger and Underwriter.

The laws of certain jurisdictions may restrict the distribution of this Prospectus and the offer and sale of the CPs. Persons into whose possession this Prospectus or any of the CPs come must inform themselves about, and observe any such restrictions. Neither the Company, the Issue Manager/Underwriter and the Selling Agents, nor any of its or their respective representatives are making any representation to any prospective purchaser of the CPs of the legality of any investment in the CPs by such prospective purchaser under applicable legal investment or similar laws or regulations.

**A REGISTRATION STATEMENT RELATING TO THESE SECURITIES HAS BEEN FILED WITH THE**

**SECURITIES AND EXCHANGE COMMISSION BUT HAS NOT YET BEEN DECLARED EFFECTIVE. NO OFFER TO BUY THE SECURITIES CAN BE ACCEPTED AND NO PART OF THE PURCHASE PRICE CAN BE ACCEPTED OR RECEIVED UNTIL THE REGISTRATION STATEMENT HAS BECOME EFFECTIVE, AND ANY SUCH OFFER MAY BE WITHDRAWN OR REVOKED, WITHOUT OBLIGATION OR COMMITMENT OF ANY KIND, AT ANY TIME PRIOR TO NOTICE OF ITS ACCEPTANCE GIVEN AFTER THE EFFECTIVE DATE. AN INDICATION OF INTEREST IN RESPONSE HERETO INVOLVES NO OBLIGATION OR COMMITMENT OF ANY KIND. THIS PROSPECTUS SHALL NOT CONSTITUTE AN OFFER TO SELL OR THE SOLICITATION OF AN OFFER TO BUY.**

The Company is organized under the laws of the Republic of the Philippines. Its principal office is located at Alsons Building, 2286 Chino Roces Avenue, Makati City 1231, Philippines, with telephone number +632 8982 3000. Any inquiry regarding this Prospectus should be forwarded to the Company or to Multinational Investment Bancorporation.

**ALSONS CONSOLIDATED RESOURCES, INC.**

By:

**TOMAS I. ALCANTARA**  
Chairman and President

**EDITHA I. ALCANTARA**  
Treasurer

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## DEFINITION OF TERMS

ACES.....	Aces Technical Services Corporation
ACR or Company.....	Alsons Consolidated Resources, Inc.
Alsing.....	Alsing Power Holdings, Inc. one of the four holding firms of Alsons under its Energy and Power business
ADIC or ALDEVINCO.....	Alsons Development and Investment Corporation
Alsons.....	Alsons Consolidated Resources, Inc.
AREC.....	Alsons Renewable Energy Corporation, one of the four holding firms of Alsons under its Energy and Power business
ATEC.....	Alsons Thermal Energy Corporation, one of the four holding firms of Alsons under its Energy and Power business
Banking Day.....	A day (except Saturdays, Sundays and holidays) on which banks in the Philippines are open for business
BIR.....	Bureau of Internal Revenue
BOO.....	“Build-Operate-Own” agreement
BSP.....	Bangko Sentral ng Pilipinas, the central bank of the Philippines
BVAL	Bloomberg Valuation benchmark reference rates as reported in the Bloomberg system
Conal or CHC .....	Conal Holdings Corporation, one of the four holding firms of Alsons under its Energy and Power business
Corporation Code.....	Batas Pambansa Blg. 68, otherwise known as “The Corporation Code of the Philippines” as amended by Republic Act No. 11232, otherwise known as the “Revised Corporation Code of the Philippines”.
CPs.....	The Commercial Papers which are evidence of indebtedness registered with the SEC with maturity of three hundred and sixty five (365) days or less
CP Holder.....	A purchaser of the CPs
CP Program .....	The Php 2,500,000,000 shelf registration which will be issued in one or more tranches

CSP.....	Competitive Selection Process
DENR.....	Philippine Department of Environment and Natural Resources
Directors.....	The members of the Board of Directors of the Company
Eagle Ridge .....	The Eagle Ridge Golf & Residential Estate
ECA.....	Energy Conversion Agreement
EPC.....	Engineering, Procurement and Construction is a form of arrangement where the EPC Contractor is responsible for all the activities from design, procurement, construction to handover to the Owner
ERC.....	Energy Regulatory Commission
First Tranche.....	The first issuance of the Commercial Paper
Government.....	The Government of the Republic of the Philippines
GRT.....	Gross receipts tax
Issue Date.....	A date at which the CPs or a portion thereof shall be issued by the Issuer, which date shall be set by the Issuer in consultation with the Sole Issue Manager, Arranger and Underwriter. For the avoidance of doubt, an Issue Date shall at any time be a date which is within the validity of the SEC Permit to Sell.
Issuer .....	Alsons Consolidated Resources, Inc.
Kalaong.....	Kalaong Hydro Power Corporation
Listing Date.....	The date at which the CP shall be listed with PDEX
MPC.....	Mapalad Power Corporation
NPC.....	National Power Corporation
O & M.....	Operation and Maintenance
Offer.....	Up to Php1,000,000,000 worth of Commercial Paper
Offer Price.....	Discount to face value
Offtake Agreement / Power Supply Agreement/ Power Sales Agreement	A contract between two parties, one which generates electricity (the seller) and one which is looking to purchase electricity (the buyer)

/ PSA.....	
Php or P.....	Philippine Pesos, the lawful currency of the Republic of the Philippines
PDEX.....	Philippine Dealing & Exchange Corp.
PDTC.....	The Philippine Depository and Trust Corporation
PEZA.....	Philippine Economic Zone Authority
PFRS.....	Philippine Financial Reporting Standards
Philratings.....	Philippine Ratings Services Corporation
Prospectus.....	This Prospectus together with all its annexes, appendices and amendments, if any
Sarangani Energy.....	Sarangani Energy Corporation
SEC.....	The Philippine Securities and Exchange Commission
SEC Permit to Sell.....	The Certificate of Permit to Offer Securities for Sale issued by the SEC authorizing the Company to offer for sale and sell the CPs to the public
Siguil.....	Siguil Hydro Power Corporation
Subsequent Issuance.....	Issuances subsequent to the Initial Issuance
Sole Issue Manager and Arranger.....	Multinational Investment Bancorporation
SPPC.....	Southern Philippines Power Corporation
SRC.....	Republic Act No. 8799, otherwise known as “The Securities Regulation Code”
SRPI.....	San Ramon Power, Inc.
TDF .....	Term Deposit Facility. The TDF is a key liquidity absorption facility, commonly used by Central Banks for liquidity management. Due to the BSP’s inability to issue its own debt instruments, the TDF will be tasked to withdraw a large part of the structural liquidity from the financial system to bring market rates closer to the BSP policy rate.
TTC.....	Toyota Tsusho Corporation

Underwriter and Issue Manager .....	Multinational Investment Bancorporation
Underwriting Agreement.....	The agreement entered into by and between the Company and the Underwriter, indicating the terms and conditions of the Offer and providing that the Offer shall be fully underwritten by the Underwriter
VAT.....	Value Added Tax
WMPC.....	Western Mindanao Power Corporation

## EXECUTIVE SUMMARY

*The following summary does not purport to be complete and is taken from and qualified in its entirety by the more detailed information including the Company's financial statements and notes relating thereto, appearing elsewhere in this Prospectus. For a discussion of certain matters that should be considered in evaluating any investment in the CPs, see the section entitled "Risk Factors" beginning on page 23 of this Prospectus.*

### OVERVIEW OF THE COMPANY

The Company was incorporated on December 24, 1974 as Victoria Gold Mining Corporation to engage in the business of exploration of oil, petroleum and other mineral products. The corporate name was changed to Terra Grande Resources, Inc. in March 1995 and to Alsons Consolidated Resources, Inc. in June 1995 to mark the entry of the Alcantara Group. ACR's primary purpose was consequently changed to that of an investment holding company and oil exploration was relegated as a secondary purpose. The Alcantara Group owns 79.97% of the outstanding common shares of ACR through Alsons Corporation (41.21%), Alsons Power Holdings Corporation (19.87%) and Alsons Development and Investment Corporation (18.89%).

ACR's core businesses, conducted through its various subsidiaries and associates, are grouped into main categories consisting of Energy and Power, Property Development, and Other Investments.

ACR's investment in the Energy and Power business is through four holding firms, namely, Conal Holdings Corporation, Alsing Power Holdings, Inc., Alsons Renewable Energy Corporation, and Alsons Thermal Energy Corporation.

The Company has four operating power generation subsidiaries, namely, Western Mindanao Power Corporation ("WMPC"), Southern Philippines Power Corporation ("SPPC"), Mapalad Power Corporation ("MPC"), and Sarangani Energy Corporation ("Sarangani"), all of which are located in Mindanao. ACR, through its subsidiaries, is also conducting feasibility studies on renewable energy projects. Sarangani Energy's 210MW coal-fired power plants are located in Maasim, Sarangani Province. Its first section of 105MW began commercial operations in April 2016, while its second section of another 105MW or Phase 2 started commercial operations on October 10, 2019.

ACR has also started construction of its first renewable energy project under Siguil Hydro Power Corporation, which will operate a 14.5MW run-of-river electricity generating facility located at the Siguil River basin in Maasim, Sarangani. ACR expects commercial operations to begin in 2022. The Company likewise began site development and clearing works for SRPI's 105MW coal-fired power plant project, which could supply power to Zamboanga City and other parts of the Zamboanga Peninsula, with commercial operations expected to begin in 2023.

The Company is also engaged in property development through its subsidiaries, Alsons Land Corporation and Kamanga Agro-Industrial Economic Development Corporation.

## COMPETITIVE STRENGTHS

The Company believes that its strengths lie in the following:

- In-depth knowledge of the Mindanao region
- Experienced management team
- Proven track record in developing and operating greenfield power projects
- Enhanced competitiveness and sustainable growth
- Focused strategies

Additional information on the Company's Competitive Strengths may be found in the *"The Company"* beginning on page 55.

## BUSINESS STRATEGY

ACR's expansion strategy is driven by the needs of the Mindanao grid and is supported by long-term offtake agreements. The Company will position its diesel plants to perform roles that are not effectively and efficiently served by coal fired power plants. In addition, ACR will develop its pipeline of hydro power projects to round up its generation mix with renewable sources.

ACR's expansion will:

- ☐ Allow it to provide a complete power solution to the Mindanao grid
- ☐ Mitigate fuel-type specific risks such as volatilities in fuel costs and regulatory concerns linked to certain fuel types
- ☐ Enhance competitiveness of ACR in the Mindanao Electricity Market
- ☐ Diversify revenue and cash flow source.

## RISKS OF INVESTING

Before making an investment decision, investors should carefully consider the risks associated with an investment in the CPs. These risks include:

### Risks relating to the Company and its business

- Risk on Foreign Exchange Rate Fluctuations
- Interest Rate Risks
- Liquidity Risks
- Credit Risks
- Risks relating to project cost and completion
- Risk on malfunctions and failures to operate
- Risk of insufficient fund to finance the project
- Risk on failure in operations of the Power plants
- Risk on assurance of successful implementation of business plans and strategies
- Reputational Risk of Directors and Officers of the Company
- Risk on foreign ownership limitations
- Regulatory Risks

- Competitive Risk

#### **General Risks**

- Slowdown in the Philippine economy
- Political or social instabilityNatural catastrophe and calamity
- Corona Virus Disease 2019 (COVID-19) Pandemic

#### **Risks Relating to the Commercial Papers**

- Liquidity Risk – the Philippine securities markets are substantially smaller, less liquid and more concentrated than major securities markets
- Price Risk – the CPs market value moves (either up or down) depending on the change in interest rates
- Retention of Ratings Risk – there is no assurance that the rating of the CPs will be retained throughout the life of the CPs

For a more detailed discussion on the risks in investing, see section on “*Risk Factors*” beginning on page 23 of this Prospectus, which, while not intended to be an exhaustive enumeration of all risks, must be considered in connection with a purchase of the CPs.

#### **CORPORATE INFORMATION**

The Company’s principal office is located at Alsons Building, 2286 Chino Roces Avenue, Makati City 1231, Philippines with telephone number +632 8982 3000.



## SUMMARY FINANCIAL INFORMATION

*The selected financial information set forth in the following table has been derived from the Company's Company's audited consolidated financial statements for fiscal years ended December 31, 2019, 2018 and 2017. These should be read in conjunction with the financial statements and notes thereto contained in this Prospectus and the section entitled "Management's Discussion and Analysis of Financial Condition" and other financial information included herein.*

*The Company's financial statements were prepared by SyCip Gorres Velayo & Co. (SGV) a member practice of Ernst & Young Global, in accordance with PFRS. The summary financial information set out below does not purport to project the results of operations or financial condition of the Company for any future period or date.*

### Income Statement

<b>CONSOLIDATED INCOME STATEMENT DATA (in Php millions)</b>			
	<b>2019</b>	<b>2018</b>	<b>2017</b>
Revenues	6,796	6,666	6,519
Cost and Expenses	4,838	5,167	5,145
Other Income/ (Charges)	(917)	(796)	(1,092)
<b>Income/ (Loss) Before Tax and Other Items</b>	<b>1,041</b>	<b>703</b>	<b>281</b>
Provision for (Benefit From) Income Tax	67	140	178
<b>Net Income</b>	<b>974</b>	<b>563</b>	<b>103</b>

<b>CONSOLIDATED FINANCIAL POSITION DATA (in Php millions)</b>			
	<b>2019</b>	<b>2018</b>	<b>2017</b>
<b>ASSETS</b>			
Current Assets	8,840	8,904	9,257
Noncurrent Assets	36,770	34,588	28,980
Total Assets	45,609	43,492	38,237
<b>LIABILITIES AND EQUITY</b>			
Current Liabilities	12,051	6,280	5,590
Noncurrent Liabilities	18,704	22,706	18,817
Total Liabilities	30,755	28,986	24,407
Total Equity	14,854	14,505	13,830
Total Liabilities and Equity	45,609	43,492	38,237

## THE OFFER

*The following do not purport to be a complete listing of all the rights, obligations and privileges of the CPs. Some rights, obligations or privileges may be further limited or restricted by other documents and subject to final documentation. Prospective note holders are enjoined to perform their own independent investigation and analysis of the Issuer and the Commercial Papers. Each prospective note holder must rely on its own appraisal of the Issuer and the proposed financing and its own independent verification of the information contained herein and any other investigation it may deem appropriate for the purpose of determining whether to participate in the proposed financing and must not rely solely on any statement or the significance, adequacy or accuracy of any information contained herein. The information and data contained herein are not a substitute for the prospective note holder's independent evaluation and analysis.*

*The following overview should be read as an introduction to, and is qualified in its entirety by reference to, the more detailed information appearing elsewhere in this Prospectus. This overview may not contain all of the information that prospective investors should consider before deciding to invest in the CP. Accordingly, any decision by a prospective investor to invest in the CPs should be based on a consideration of this Prospectus as a whole, which provides the material rights, obligations and privileges of a CP Holder. Should there be any inconsistency between the summary below and the final documentation, the final documentation shall prevail.*

The following are the terms and conditions of the First Tranche:

Issuer	: Alsons Consolidated Resources Inc.
Sole Issue Manager, and Arranger, and Underwriter	: Multinational Investment Bancorporation
Instrument	: Registered Commercial Paper
Issue Size	: ₱1,000,000,000.00 to be issued in one lump sum or multiple issuances; the Commercial Papers may be issued and reissued, in each case, in whole or in part and in one or more series, within three (3) years from the date of the SEC order rendering the Registration Statement effective and a corresponding permit to offer securities for sale covering the Commercial Paper program
Method of Issue	: The Issuer may, in consultation with the Sole Arranger and Lead Underwriter, issue or reissue, in whole or in part, the Commercial Papers covered by the Registration Statement, in one or more series under Rule 12.1.2.5 of the Implementing Rules and Regulation of the Securities Regulation Code provided that a) the outstanding amount of the Commercial Papers at any time shall not exceed One Billion Pesos (PhP 1,000,000,000.00), b) the Commercial Papers are issued within three (3) years following the Registration Statement Effectivity Date.

Use of Proceeds	: To partially finance the redemption of its maturing Commercial Papers
Tenor / Initial Issuance	: The tenor of the initial issuance shall be as follows: Series L: Ninety One (91) days from Issue Date Series M: One Hundred Eighty Two (182) days from Issue Date Series N: Three Hundred Sixty Four (364) days from Issue Date
Denomination	: For Series L and M:  Minimum of Pesos: Five Million (Php5,000,000.00) face value and increments of Pesos: One Hundred Thousand (Php100,000.00)  For Series N:  Minimum of Pesos: Five Hundred Thousand (Php500,000.00) face value and increments of Pesos: One Hundred Thousand (Php100,000.00)
Issue Price	: Discount to Face Value
Issue Date	: In one or more dates to be set by the Issuer in consultation with the Sole Issue Manager, and Arranger and Underwriter on a “when and as needed” basis. The target issue date for the Initial Issuance of the Second Tranche is [2nd quarter 2020]. For the avoidance of doubt, an Issue Date shall at any time be any date which is within the validity of the SEC Permit to Sell.
Discount Rate for Initial Issuance	: Benchmark Rate + Spread
Reissuance Procedure	: Issuer reserves the right during the validity of the Registration Statement for the Commercial Papers to a) issue additional Commercial Papers; or b) reissue Commercial Papers that have matured and are repaid on the relevant Maturity Date; provided that, at any time during the three (3)-year validity of the Registration Statement, there will be no more than Php1,000,000,000.00 in aggregate principal amount of Commercial Paper outstanding and none of the Commercial Papers will have a maturity date of 365 days or more; provided further, that at the maturity date of any outstanding Commercial Papers for another term of not more than 365 days; provided further, that any and all relevant taxes, including, but not limited to documentary stamp tax on the indebtedness, shall be paid by the issuer for each issuance and reissuance of the Commercial Papers.

Discount Rate for Subsequent Issuance/s	: The discount rate for the subsequent issuance/s shall be set by the issuer in consultation with the arranger which may be determined based on the corresponding Benchmark Rate plus Spread
Minimum Denomination for Secondary Trading	: Minimum of Pesos: One Hundred Thousand (Php 100,000) face value and increments of Pesos: Ten Thousand (Php 10,000)
Benchmark Rate	: The higher of the three-day average PHP BVAL benchmark rate of the corresponding tenor or the closest tenor of the Term Deposit Facility of the Bangko Sentral ng Pilipinas  The corresponding benchmark rates are as follows:  Series L: PHP BVAL 3M, or its successor benchmark rate  Series M: PHP BVAL 6M, or its successor benchmark rate  Series N: PPH BVAL 12M, or its successor benchmark rate
Spread over the Benchmark Rates	: The Credit Spread for the Initial Issuance of each series is as follows:  Series L: TBD  Series M: TBD  Series N: TBD
Tenor of Subsequent Issuance/s	: The tenor of succeeding issues may range from thirty (30) days up to the maximum tenor allowed by the Securities and Exchange Commission (SEC) under the relevant provisions of the Securities Regulation Code (SRC)
Interest Computation	: The Interest/Discount Rate and Rollover/Discount Rate will be calculated on a true-discount basis
Principal Repayment	: The principal amount of the CPs will be repaid in full at their respective Maturity Dates, unless the investor provides written instruction to rollover the entire amount or a portion thereof.  If such principal repayment is due on a day that is not a business day, the principal repayment date shall be made on the immediately succeeding business day. No additional interest will be paid in such case.
Status	: The CPs will constitute direct, unconditional, unsubordinated, general and unsecured obligations of the Issuer ranking at least pari passu in all respects and without preference or priority (except for any statutory preference or priority applicable in the winding-up of the Issuer) with all other outstanding unsecured and unsubordinated obligations (contingent or otherwise,

	present and future of the Issuer.
Form	: The CPs shall be issued scripless and will be maintained in electronic form with the Registrar to be appointed for the purpose
Taxation	: Interest paid on the CPs shall be subject to a 20% final withholding tax.  A CP Holder who is exempt from or is not subject to the aforesaid withholding tax shall be required to submit a tax exemption certificate and other applicable documents.
Registrar	: Philippine Depository & Trust Corp.
Paying Agent	: Philippine Depository & Trust Corp.
Facility Agent	: AB Capital and Investment Corporation – Trust Department The Facility Agent has no direct relations with the Issuer.
Secondary Trading	: The CPs are intended to be listed at the Philippine Dealing & Exchange Corp. (PDEX) for secondary trading of the CPs and upon such listing, all secondary trading may be coursed through eligible PDEX Trading Participants.
Market Maker	: Multinational Investment Bancorporation
Manner of Purchase	: The CPs will be available for sale from the Sole Underwriter and Selling Agents, if any, subject to minimum purchase amount and denomination.
Acceptance / Rejection of the Application	: The Issuer and the Sole Issue Manager, Arranger and Underwriter reserve the right to accept or reject any application for CPs. In case of over-subscription, the Issuer and the Sole Issue Manager, Arranger and Underwriter reserve the right to allocate the CPs available to the investors in a manner they deem appropriate.
Delivery of CP	: Delivery of the CPs will be made upon full payment of the Offer Price to the Sole Underwriter and/or Selling Agents
Liabilities	: The Company as the CP issuer is liable and responsible for any and all obligations arising from the sale of the CP as provided under pertinent sections of the Negotiable Instruments Law, the SRC and applicable laws of the Philippines as well as in the Underwriting Agreement and related agreements. In addition, the Issuer is responsible for complying with all reportorial

	requirements of the SEC in connection with the issuance of the CP.
Credit Rating	<p>: The Issuer has a rating of PRS A plus as assigned by Philratings effective April 30, 2020.</p> <p>Philratings assigned an issuer credit rating of PRS A plus (corp.) for Alsons Consolidated Resources, Inc. based on the following considerations:</p> <ul style="list-style-type: none"> <li>(i) the development projects in Mindanao that are supportive of the growth of the region's power industry;</li> <li>(ii) the Company's ability to establish joint ventures with strong partners for particular projects;</li> <li>(iii) its planned expansion projects which will further diversify its generation mix;</li> <li>(iv) its improving profitability, albeit with the need to improve on its liquidity position;</li> <li>(v) the challenges it encountered in securing bilateral contracts for its diesel power plants; and</li> <li>(vi) the increasing economic and market uncertainty caused by the COVID-19 pandemic.</li> </ul>
Security	<p>: Negative pledge on the Company's existing and future assets, except (i) to secure statutory obligations, (ii) to enable the Company to continue to enter into its usual transactions in the ordinary course of business, (iii) those imposed by law or arising out of pledges or deposits under workmen's compensation laws or other social security or retirement benefits or similar legislation, and (iv) those created for the purpose of paying current taxes, assessments or other governmental charges which are not delinquent or remain payable without any penalty, or the validity of which is contested in good faith by appropriate proceedings upon stay of execution of the enforcement thereof.</p>
Cross Default	<p>: The Company shall be considered to be in default in case the Company fails to pay or defaults in the payment of any installment of the principal or interest relative to, or fails to comply with or to perform, any other material obligation, or commits a breach or violation of any of the material terms, conditions or stipulations, of any agreement, contract or document with any persons to which the Company is a party or privy, whether executed prior to or after the date hereof, or under which the Company has agreed to act as guarantor, surety or accommodation party, which, under the terms of such agreement, contract, document, guaranty or suretyship, including any agreement similar or analogous thereto, shall</p>

	constitute a material default thereunder after allowing for all applicable grace periods. No default will occur under this clause if the aggregate amount the Company fails to pay is less than Php 35 million (or its equivalent in any other currency or currencies)".
Other Terms and Conditions	<p>: 1. The CPs will not be convertible to any other security or equity of the Issuer.</p> <p>2. The Issuer will not set up any sinking fund for the redemption of the CPs.</p> <p>3. Substitution of the CP with another type of security will not be permitted.</p> <p>Other terms and conditions as may be agreed upon among the Issuer, the Sole Issue Manager, Arranger and Underwriter.</p>

## **RISK FACTORS**

### **GENERAL RISK WARNING**

*The price of securities can and does fluctuate, and any individual security may experience upward or downward movements, and may even become valueless. There is an inherent risk that losses may be incurred rather than profit made as a result of buying and selling securities. Past performance is not a guide to future performance.*

*There is an extra risk of losing money when securities are issued by smaller companies. There may be a big difference between the buying price and the selling price of these securities.*

*Investors deal in a range of investments each of which may carry a different level of risk.*

### **PRUDENCE REQUIRED**

*The risk disclosure does not purport to disclose all the risks and other significant aspects of investing in these securities. Investors should undertake independent research and study on the trading of these securities before commencing any trading activity. Investors may request publicly-available information on the CPs and the Company from the SEC and PDEX.*

### **PROFESSIONAL ADVICE**

*An investor should seek professional advice if he or she is uncertain of, or has not understood, any aspect of the securities to invest in or the nature of risks involved in trading of securities, especially high risk securities.*

### **RISK FACTORS**

*An investment in the CPs described in this Prospectus involves a certain degree of risk. A prospective purchaser of the CPs should carefully consider the following factors, in addition to the other information contained in this Prospectus, in deciding whether to invest in the CPs. This Prospectus contains forward-looking statements that involve risks and uncertainties. ACR adopts what it considers conservative financial and operational controls and policies to manage its business risks. The Company's actual results may differ significantly from the results discussed in this Prospectus. Factors that might cause such differences, thereby making the offering speculative or risky, may be summarized into those that pertain to the business and operations of ACR in particular, and those that pertain to the over-all political, economic, and business environment, in general. These risk factors and the manner by which these risks shall be managed are presented below. The risk factors discussed in this section are of equal importance and are only separated into categories for easy reference.*

*Investors should carefully consider all the information contained in this Prospectus including the risk factors described below, before deciding to invest in the CPs. The Company's business, financial condition and results of operations could be materially adversely affected by any of these risk factors.*



## **RISKS RELATING TO THE COMPANY AND ITS BUSINESS**

*The following discussion is not intended to be a comprehensive description of all applicable risk considerations, and is not in any way meant to disclose all risk considerations or other significant aspects of participation in the CPs. Prospective participants are encouraged to make their own independent legal, financial, and business examination of the Company.*

Through prudent management and cautious investment decisions, ACR constantly strive to minimize risks that can weaken its financial position. However, certain risks are inherent to specific industries and are not within the direct control of the Company.

Some of the risks that the Company and its subsidiaries may be exposed to are the following:

### **1. Risk on Foreign Exchange Rate Fluctuations**

The Company's exposure is primarily associated with fluctuations in the value of the Peso against the U.S Dollar and other foreign currency. The spare parts and insurance of SPPC and WMPC are denominated in U.S. Dollars.

#### *Risk Mitigation:*

The Company keeps a portion of its short-term investments in foreign currency to serve as a hedge in foreign exchange fluctuations.

### **2. Interest Rate Risks**

The Company's interest rate risks management policy centers on reducing overall interest expense and minimizing other costs of borrowing. Changes in market interest rates would have material impact on the Company's interest-bearing obligations, specifically on those with floating interest rates.

#### *Risk Mitigation:*

ACR and its subsidiaries manage their interest rate risks by averaging its debt portfolio and by optimizing the mix of fixed and variable interest rates. Other measures are employed to avert risk include pre-payment of debts and re-financing of loans as the opportunities arise. Moreover, utilization of existing credit facilities has been kept to a minimum.

### **3. Liquidity Risks**

Liquidity risk arises from the possibility that the Company encounter difficulties in raising funds to meet or settle its obligations at a reasonable price. In addition, the Company may be unable to refinance its outstanding debt, and any future financing arrangements entered into by the Company may be less favorable than the current ones.

#### *Risk Mitigation:*

The Company and its subsidiaries carefully manage their liquidity position to be able to finance their working capital, debt service, and capital expenditure requirements. Sufficient levels of cash and short-term money market placements are maintained to meet maturing obligations. Management regularly monitors and forecasts its cash commitments, matches debt payments with

cash generated from the assets being financed, and negotiates with creditors on possible re-financing of existing loans to avail of better terms and conditions.

#### **4. Credit Risks**

Credit risk is the risk that a counterparty will not meet its obligation under a financial instrument or a customer contract, leading to non-collection of earned revenues and financial losses.

##### *Risk Mitigation:*

ACR and subsidiaries transact only with companies and institutions that are in a sound financial position and have demonstrated good credit standing. The power companies' receivables are from various electric cooperatives and the collection of which has been current and up to-date except for SPPC's long-outstanding receivable from NPC consisting of US\$7,336,536.91 and P96,255,433.46 plus interest from April 25, 2005 to April 25, 2010, which arose from a decision by the Energy Regulatory Commission (ERC) that NPC has appealed to the Supreme Court. On November 23, 2016, the Supreme Court Second Division issued a resolution that denied NPC's motion for reconsideration with finality. On the other hand, Receivables of the property companies come from installment sales of industrial/residential lots and housing units. Receivable balances are monitored regularly and allowance provisions are reviewed to ensure limited exposure to bad debts.

#### **5. Risks relating to project cost and completion**

Possibility of cost overrun may happen due to change orders. In addition, the Company may encounter slippage in the project schedule. If any of these happen, the Company may not be able to achieve its financial targets, which are linked to the successful completion of its future and ongoing projects.

##### *Risk Mitigation:*

The Company is confident that project schedule slippage would be minimized during the construction since the agreed subcontractors are reputable local companies with good track record.

Since possibility of cost overrun may happen due to change in orders, the project team ensures adherence to provisions and scope of work specified in the EPC Contract. Thorough review of terms of reference will be undertaken by the project team to minimize change orders. If there is a change in order, there will be disruptions in the construction. However, since EPC contractors have conducted 3D model and walk through during the pre-construction phase, the team can easily detect and resolve construction issues, thus minimizing delays.

#### **6. Risk on malfunctions and failures to operate**

The Company's financial performance is highly dependent on the successful operation of its power plants, which are subject to several operational risks such as plant safety, fire, explosion, mechanical failure, electrical failure and instrumentation and control Failure.

##### *Effects and Risk Mitigation:*

- Fire and Explosion :

ACR's power plant areas are exposed to the risk of fire especially its conveying system, transformers and steam turbines. Since fire would disrupt the normal operations of the Company and damage the Company's properties, ACR may encounter financial losses resulting from incidents of fire.

To mitigate this risk, the Company ensures that power plant areas have adequate fire detection and sprinkler system installed. Also, vacuum trucks are used to prevent accumulation of inputs in the conveyor areas. Sufficient spare parts are also maintained to make sure that faulty parts are replaced on time and prevent risk of malfunction, which could result in incidents of fire.

Another risk that the machines and equipment of the power plants are exposed to, particularly the boiler and switchgear, is the risk of explosion. Boiler explosion could happen if too much fuel is fed to the boiler, which then gassifies and causes an explosion. To mitigate this, the Company has a boiler protection system which will trip the plant before such condition forms. Switchgear explosion could happen if there is short circuit in the switchgear. One of the functions of switchgear is protection, which is interruption of short-circuit and overload fault currents while maintaining service to unaffected circuits. Switchgear also provides isolation of circuits from power supplies and a regular thermographic survey is done to all switchgears. Also, all of ACR's power plants are adequately insured to cover the risk of fire.

- Plant safety:

Power plants are much safer than they once were however this does not imply that the plant employees will not encounter hazards. With the Company's proper operation and maintenance procedures this reduces accidents and mitigates their effects. Furthermore, the power plants are strategically located in order to avoid any disturbances and ensure efficient work flow. For example, during Sarangani Phase 2 construction, the construction may pose as a disturbance to the existing operations, ACR manages this risk by proper segregation of components for Sarangani Phase 2. Also, permitting system on common facilities was jointly developed by Project Team and O&M.

- Mechanical Failure:

One of the main causes of disruption in daily operations in a power plant is mechanical failure of plant and equipment. Some of the causes of mechanical failure are the boiler, turbine, major pump or valve, fans, coal conveying system, and raw water supply system and these and the potential consequences of these failures can be crucial. However, with the expert engineering assistance, solution and design system, monitoring system for early indication of possible failure, and daily inspections of the equipment and ensures that there are adequate spare parts.

The boiler and cooling water (CW) chemical dosing systems have redundant dosing pumps thus contracts of chemical supply are in place to always have adequate inventory at site. Moreover, the water/steam system has online analysers for monitoring the quality 24/7 and a water laboratory with a 365 day coverage. For example, when the lower part of Sarangani Phase 1

boiler was experiencing tube erosion causing two boiler tube leaks/forced outages, the proposed long term solution/design change was installed allowing the boiler normal operation from annual scheduled outage to the next scheduled outage.

As for turbine failures, these are considered a very rare occurrence on steam turbines. The turbine/generator has an online vibration monitoring system and they have its own protection system. During scheduled outages, inspection of steam turbine (ST) blades will be done.

For the Boiler Feed, Condensate and Cooling Water pumps, an example of this would be Sarangani Phase 1 where it has 2 x 100% capacity. This means that if one pump has mechanical failure, the plant can still operate on 100% capacity. Pumps will have adequate spares (bearings, mechanical seals etc.), and possible repair shops have been identified.

Delays in the operations could also happen when there are mechanical failures and there are no adequate spare parts. To mitigate this, the Company ensures that its supplies and spares are adequate at all times by setting a certain period when the inventory is restocked. The inventory is always monitored and buffers are set in order to give allowance to unexpected requirements.

- Electrical Failure:

The objective of electric systems is to guarantee uninterrupted operation of a facility's lighting, process, and environmental systems. Electrical failures may interrupt the Company's processes, and thus could hinder its ability to efficiently run its operations. In the case of ACR's power plants, the areas which are highly exposed to risk of electrical failure include fan motors, feed water, condensate and cooling water pumps, Electrostatic Precipitator (ESP) and switchgear. To mitigate these types of risk the Company has maintenance and conditioning monitoring program for early detection of any electrical fault. If problem arises on ESP transformers / electrical systems, the Company has ESP vendor to inspect the site and rectify the problems.

A sample of a mitigant on electric failure risk would be Sarangani's 6kV, 480V and 220V switchgear. The company makes sure that they are mostly situated at the Main Control Room (MCR) switchgear rooms which are well ventilated, dust free and protected by FM200 system. Furthermore, Sarangani is also conducting regular thermographic inspections of all switchgear systems for early detection of any hot spots and lost connections. During the scheduled annual outages, maintenance will be done, as per Original Equipment Manufacturer (OEM) recommendations and at the same time Sarangani is planning to purchase spare switchgear equipment over the next 3 years.

- Instrumentation and Control Failure:

The plant areas which are highly exposed to risk of instrumentation and control failure include the Distributed Control System (DCS) and Programmable Logic Controller (PLC) system. This failure could also disrupt the normal operations of the Company, and thus, ACR mitigates this risk by ensuring that adequate spares for any part of the DCS are available and that there's a dedicated DCS engineer to monitor the system's performance on a daily basis.

Instrument failures and malfunction is the most common cause of plant disturbance where a single instrument failure can cause equipment, system or plant trip. To prevent this, the company has planned maintenance & calibration program for all the instruments and control valves.

Presented below are the insurance providers of the power plants:

Diesel Power Plants

Type	WMPC	SPPC	MPC
Industrial All Risk	UCPB General Insurance	UCPB General Insurance	1. Charter Ping An Insurance 2. Asia Insurance 3. UCPB General Insurance
Public Liability	Pioneer Insurance & Surety Corp.	Pioneer Insurance & Surety Corp.	1. QBE Seaboard Insurance Phils., Inc.
Fuel Stocks	UCPB General Insurance	Charter Ping An Insurance –not renewed up to 2018 only	1. Charter Ping An Insurance 2. New India Assurance Co., Ltd
Sabotage and Terrorism	UCPB General Insurance	UCPB General Insurance – Paid by WMPC/MPC only	1. Charter Ping An Insurance

## Coal Power Plants

Type	Provider
a.) Sarangani Phase 1	
i. Political Violence and BI	Charter Ping-An Insurance Corporation
ii. Comprehensive General Liability	Charter Ping-An Insurance Corporation
iii. Industrial All Risk	Malayan Insurance Co. Inc., UCPB General Insurance Co., Inc. and Charter Ping-An Insurance Corporation
iv. Terminal Operators Liability	Charter Ping-An Insurance Corporation
v. Marine Open Policy	Charter Ping-An Insurance Corporation
vi. Fire	Charter Ping-An Insurance Corporation
b.) Sarangani Phase 2	
i. Construction/Erection All Risk with Delayed Start-up (DSU)	Malayan Insurance Co. Inc., UCPB General Insurance Co., Inc. and Charter Ping-An Insurance Corporation
ii. Marine Cargo Insurance with DSU	UCPB Gen
iii. Sabotage and Terrorism (Political Violence) with DSU	Charter Ping An
iv. Construction Comprehensive General Liability	Charter Ping An

### **7. Risk of insufficient funds to finance the project**

Loss or Low Revenue and Net Income and inability to collect revenues in a timely manner may affect the Company's ability to finance its ongoing projects.

#### *Risk Mitigation:*

Low revenues and inability to collect in a timely manner may affect the Company's ability to finance its ongoing projects. This is mitigated by the Company's efforts to generate and collect revenues more efficiently. The Company also ensures that their operational risks are minimized to keep their production steady.

In addition, ACR's shareholders have enough funds and bank lines to fund possible shortages to finance the projects.

### **8. Risk on failure in operations of the Power plants**

Failures in the operation of the power plants may impact the Company's financial performance as it may disrupt operations and may therefore entail loss in revenues.

#### *Risk Mitigation:*

To mitigate such risk, the Company ensures adherence to its business plans and strategies, which are further discussed in the succeeding risk item. Also, if there's any disruption in any of the power

plants, the other power plants can support its operations. This prevents failure in operations, and therefore, minimizes exposure to such risk.

#### **9. Risk on assurance of successful implementation of business plans and strategies**

The Company may be exposed to various operational and financial risks that could hinder the implementation of its business plans and strategies. The inability to achieve its business plans and strategies may result in a delay in the operations of the Company.

*Risk Mitigation:*

##### Focused Strategy

ACR's expansion plans and growth aspirations are founded on a set of focused strategies that will enable it to manage the risks and challenges associated with the power generation business.

As in the past, the Company's expansion strategy is firmly anchored on the needs of the Mindanao Grid and is supported by offtake agreements to ensure the long-term sustainability of its business. Furthermore, ACR's power plants are strategically positioned to serve the key load centers of Sarangani, Zamboanga and Iligan.

ACR anticipates a surplus of baseload capacity and has managed this risk by virtually fully contracting its capacity. Any uncontracted capacity will be sold to the Mindanao WESM once it starts operating. By being adequately contracted, ACR will be less affected by the impending oversupply in the Mindanao grid.

ACR's diesel plants will also be positioned to perform roles that are not effectively and efficiently served by coal fired power plants such as service intermediate and peaking capacities, as well as provide ancillary services.

To round up its strategy, ACR has also embarked on a renewable energy expansion program that would involve the construction of several hydropower projects.

##### Development of greenfield power projects

ACR's growth story hinges on the successful construction and operation of greenfield power projects. The development of greenfield power projects involves substantial risks that could result in delays, cost overruns, or construction not being up to original plans or specifications. Such risks include the inability to secure adequate financing, inability to negotiate acceptable offtake agreements, as well as unforeseen engineering and environmental problems, among others.

Any such delays, cost overruns, or construction deviations from original plans could have a material adverse effect on the business, financial condition, results of operation and future growth prospects of ACR.

Aside from its own developed expertise and proven success in developing greenfield power projects, project risks are mitigated by the presence of committed project sponsors and partners, project contracts that have been crafted in accordance with international project finance

standards, strong project management support from owner's engineer, power supply agreements and experienced O&M service providers.

#### **10. Reputational Risk of Directors and Officers of the Company**

Any reputational damage involving ACR's Directors and Officers may affect the Company's performance. Reputational issues may result in loss of customers' and creditors' confidence, and since the Company's ability to continue operating efficiently depends on its relationship with its customers and creditors, such issues could result in financial losses.

*Risk Mitigation:*

Any reputational damage involving ACR's Directors and Officers may affect the Company's performance. This is mitigated by the fact that the founders have been in the business for several years with unblemished record, and that the independent directors and officers are selected through a stringent vetting process.

#### **11. Risk on foreign ownership limitations**

The Company may be exposed to risk on foreign ownership limitations, which is set at 40% as the Company owns land directly and uses natural resources indirectly via its subsidiaries. This means that foreigners cannot own more than 40% of the Company. Should the Company hit the limit, it could no longer accept additional foreign investments. ACR's current foreign ownership is at 1.19%, a relatively small percentage compared to the 40% limit.

*Risk Mitigation:*

ACR's foreign ownership is currently at 1.19%. The Company is constantly monitoring the ownership of ACR shares, and it has no prospects of increasing foreign ownership.

#### **12. Regulatory Risks**

The Company's business and financial condition may be adversely affected by amendments in the Electric Power Industry Reform Act, and its Implementing Rules and Regulations. Continued compliance with, and any amendments in, regulatory, safety, health and environmental laws and regulations may have an adverse impact on the Company's operating costs.

In addition, Licenses, permits, and operating agreements necessary for the Company's operations may not be acquired, sustained, renewed or extended.

ACR's operating subsidiaries are required to comply with environmental regulations. The failure of these subsidiaries to comply with the relevant environmental regulations could result in administrative, civil and criminal proceedings initiated by the Government, as well as civil proceedings by environmental groups and other individuals, which could result in substantial fines and penalties against the Company, as well as orders that could limit or halt its operations.

There can be no assurance that the Company will not become involved in litigation or other proceedings, or be held responsible in any such future litigation or proceedings relating to safety, health and environmental matters in the future, and the costs of which could be material and



could materially and adversely affect the Company's cash flow, results of operations and financial condition.

*Risk Mitigation:*

To mitigate regulatory risks, ACR exerts proactive effort to make sure all existing and upcoming changes in regulations are met. The Company ensures their continued compliance with, and any amendments in, regulatory, safety, health and environmental laws and regulations, regardless of the operating costs entailed by it.

Environmental, health and safety policies are an integral part of ACR's power generation plants. The existing diesel power plants conduct regular monitoring of waste water, source emission, ambient air, noise, aquatic biota, ground and surface water, community health, hazardous waste, resource usage and conservation, solid waste generation and disposal and legal requirements compliance. Notable is that WMPC is a recipient of recognitions and awards for being one of the safest workplaces in the region. The power plant is monitored and verified by the Multi-Partite Monitoring Team which is composed of the stakeholders including DENR, DOST, relevant local government units, NGOs and members of academia.

For the Sarangani Energy Corporation coal plants, technology mitigates most pollutants, except carbon emission. To mitigate the effects of carbon emission, ACR instituted a carbon sink program, where ACR has committed to plant 1.8 million seedlings over 3,750 hectares of land. To date, ACR has planted 1.17 million seedlings covering 2,600 hectares of land. ACR is the only power generation company that has an extensive forest-based carbon mitigation program

### **13. Competitive Risk**

The Company is confronted by increased competition in the power industry, including those resulting from legislative, regulatory, and industry restructuring efforts.

The Government has sought to implement measures designed to enhance the competitive landscape of the power market, particularly for the unregulated sectors of the industry. These measures include the privatization of NPC-owned and controlled power generation assets, the establishment of the WESM and the Retail Competition and Open Access (RCOA). With increased competition, ACR could also come under pressure to review or renegotiate the terms of offtake agreements with customers, which may adversely affect ACR's financial performance and results of operations. To the extent that distribution utilities or industrial off-takers decide to purchase power from other generation companies instead of purchasing from ACR, the ability of ACR to generate the required revenues would be adversely affected.

*Risk Mitigation:*

The Company is confronted by increased competition in the power industry, which this could result in an uncertain revenue stream and a possible reduction in market share. To combat such risk, ACR focused on strong marketing and finding a niche in the market.

ACR ensured that its power capacities are contracted under long-term power supply agreements with various customers in the Mindanao Grid. This insulates ACR from the effects of a potential oversupply situation. Furthermore, ACR's strategy of locating its plants within the service areas of their major electric distribution company customers also improves their competitiveness as this could result in lower transmission costs for the distribution utilities.

The Company believes that its experience in developing, building, financing, and operating generating plants, its familiarity with the region, and the location of its current and future generation facilities are strong competitive advantages that mitigate threats from increased competition.

## **RISKS RELATING TO THE PHILIPPINES**

A slowdown in the Philippine economy could adversely affect the Company.

Results of operations of the Company have generally been influenced, and will continue to be influenced by the performance of the Philippine economy. Consequently, the Company's income and results of operations depend, to a significant extent, on the performance of the Philippine economy.

In the past, the Philippines has experienced periods of slow or negative growth, high inflation, significant devaluation of the Philippine Peso and debt restructuring, and has been significantly affected by economic volatilities in the Asia-Pacific region. The Company cannot assure prospective investors that one or more of these factors will not negatively impact Philippine consumers' purchasing power, which could materially and adversely affect the Company's financial condition and results of operations.

In addition, global financial, credit and currency markets have, since the second half of 2007, experienced, and may continue to experience, significant dislocations and liquidity disruptions. There is significant uncertainty as to the potential for a continued downturn in the U.S. and the global economy, which would be likely to cause economic conditions in the Philippines to deteriorate.

A slowdown in the Philippine economy may adversely affect consumer sentiment and lead to a reduction in demand for the Company's products. There is also no assurance that current or future Government administrations will adopt economic policies conducive to sustaining economic growth.

Political or social instability could adversely affect the financial results of the Company.

The Philippines has experienced political and military instability. In the past decade, political instability has been observed headlined by impeachment proceedings against former presidents Joseph Estrada and Gloria Macapagal-Arroyo, and public and military protests arising from alleged misconduct by previous administrations. There is no assurance that acts of election-related violence will not occur in the future and such events have the potential to negatively impact the Philippine economy. An unstable political environment, whether due to the imposition of emergency executive rule, martial law or widespread popular demonstrations or rioting, could negatively affect the general economic conditions and operating environment in the Philippines, which could have a material adverse effect on the Company's business, financial condition and results of operations.

### ***The occurrence of natural catastrophes may materially disrupt the Company's operations.***

The Philippines has experienced a number of major natural catastrophes over the years, including droughts, typhoons, volcanic eruptions and earthquakes, which may materially disrupt and adversely affect the business operations of the Company. While The Company maintains a comprehensive business insurance against natural catastrophes, there can be no assurance that it will be adequately compensated for all damages and economic losses resulting from natural catastrophes.

## Corona Virus Disease 2019 (COVID-19) Pandemic:

On March 8, 2020, President Rodrigo R. Duterte, recognizing that COVID-19 constitutes a threat to national security and prompting a whole-of-government approach in addressing the outbreak, declared a state of public health emergency throughout the entire Philippines through Proclamation 922.

On March 16, 2020, to prevent the sharp rise of COVID-19 cases in the country, the President placed the entire Luzon under Enhanced Community Quarantine (ECQ) until April 14, 2020. On April 7, 2020, upon the recommendation of the Inter-Agency Task Force on Emerging Infectious Diseases (IATF EID), the President extended the ECQ until April 30, 2020.

The economic narrative on the COVID-19 outbreak revolves around two causal mechanisms: the impact of the fear factor on behavior, reflected in a decline in demand for travel-related services, discretionary consumption, and the production and regional supply chains. Our power plants continue to deliver the required uninterrupted energy supply. As such, the impact on the business will be minimal.

The ECQ that has been declared as a result of the pandemic resulted in a drop in peak demand for power in Mindanao of between 20% and 25% as commercial customers, mainly made of shopping malls and similar establishments stopped operating. Industrial demand however is less affected and we expect this to continue driving demand for our output. Most of the Company's customers have industrial loads that are producing basic commodities that are essential and are in fact counter-cyclical in nature. These include canneries of fish and fruit products and other producers of food products. Since most of the DU customers in their respective franchise areas have already shifted from ECQ to GCQ with most essential manufacturing services on full operations, demand is forecasted to be stable for the rest of 2020.

To help soften the impact of the ECQ, the government also ordered distribution utilities, power generation companies, fuel suppliers, and other entities involved in the power supply chain to give a 30-day payment extension of all bills falling due within the ECQ. This deferred amount will be repaid in four (4) equal monthly installments or as negotiated with DU. As for suppliers, the company has not encountered any problems with them.

The Company defines its own policies and guidelines to adequately prepare, manage, and respond to the needs of both the company and its employees as the COVID-19 pandemic develops.

### Limited workforce

- ☐ Work from Home Scheme for head office and mix of WFH and On Site on a 14 day rotation for plant personnel
- ☐ Manpower support through advance salary and 13th month pay, food and transportation allowance

The following illustrates how the company is dealing with the current situation.

### O&M Personnel

#### How to Sustain and Maintain COVID free O&M personnel

1. Continue close monitoring of personnel health/condition

2. Maintain provision of PPEs and preventive medical supplies to all personnel
3. Strict adherence to guidelines and protocols for COVID-19 prevention.
4. Continue provision of meals and accommodation for personnel working straight 15-days-duty and 15-days-off.

Possible/In case of infection of some O&M personnel.

1. Identify potential replacements and start immediately training/cross-training or developmental assignment.
2. Simulate/draft a type of shifting schedule of operation at reduced number of personnel and or groups.

Inventory of operating supplies and consumables

1. Fuel inventory – good for 3 months
2. Chemicals, Lube Oil, other supplies – good for 1.5 months

## **MITIGATION OF RISKS RELATED TO THE COUNTRY**

In general, the Company believes that the risk factors discussed herein are mitigated by its competitive strengths and business strategies, as well as its strong corporate governance structure and its seasoned management team. The Company continuously monitors and studies its existing and probable exposure to various risk in order to be able to mitigate these risks more proactively.

## **RISKS RELATING TO THE COMMERCIAL PAPERS**

### **Liquidity Risk**

The Philippine securities markets are substantially smaller, less liquid and more concentrated than the major securities markets. The Company cannot guarantee that the market for the CPs will always be active or liquid. Even if the CPs are listed in the PDEX, trading in securities such as the CPs may be subject to extreme volatility at times, in response to fluctuating interest rates, developments in local and international capital markets and the overall market for debt securities among other factors. There is no assurance that the CPs may be easily disposed of at prices and volumes and at instances best deemed appropriate by their holders.

### **Price Risk**

The CP's market value may move (either up or down) depending on the change in interest rates in the market. The CPs when sold in the secondary market may be worth more if interest rates drop. Conversely, if the prevailing interest rates rise, the CPs may be worth less when sold in the secondary market. In such instance, an investor faces possible loss if he decides to sell.

### **Retention of Ratings Risk**

There is no assurance that the rating of the Issuer will be retained throughout the life of the CPs. The rating is not a recommendation to buy, sell, or hold securities and may be subject to revision, suspension, or withdrawal at any time by the assigning rating organization.

## **MITIGATION OF RISKS RELATING TO THE COMMERCIAL PAPERS**

In general, the Company believes that the risk factors discussed herein are mitigated by its competitive strengths and business strategies.

## USE OF PROCEEDS

The Company's net proceeds from the Offer is expected to be approximately **Php 931,655,983.39** after deducting the applicable fees and expenses.

Expenses related to the Offer, all of which will be for the account of the Company, are broken down as follows:

### Estimated Net Proceeds from the CP Issuance

<b>Sample Computation</b>	
Face Value of the Offer	<b>₱ 1,000,000,000.00</b>
Discount (indicative based on 5.6933% and 360 days assuming true discount computation)	<b>(53,866,233.72)</b>
Gross Proceeds	<b>946,133,766.28</b>
Less:	
SEC Filing and Legal Research Fees	(820,625.00)
Documentary Stamp Tax (maximum assuming P500 million issued for one year)	(7,500,000.00)
Underwriting and Selling Fees (maximum)	(5,263,157.89)
Philratings credit rating report fees	(649,000.00)
PDTC Registry fees*	(170,000.00)
PDEX listing maintenance fees*	(25,000.00)
Estimated Costs of Printing and Publication	(50,000.00)
Total expenses	<b>(14,477,782.89)</b>
Net Proceeds	<b>931,655,983.39</b>

\* PDTC and PDEX fees are estimates

In the event that the actual expenses relating to the Offer differ from the above estimates, the actual net proceeds to the Company from the Offer may be higher or lower than the expected net proceeds set forth above. Any increase or decrease in the net proceeds to the Company shall be addressed by making a corresponding increase or decrease, as the case may be, to the Company's provision for working capital requirements.

The Company intends to use the proceeds from the Offer to partially fund the redemption of ACR's Commercial Papers maturing in the third quarter of 2020, depending on the net proceeds raised from the Offer.

Presented below is a list of some of the Company's short-term loans maturing in the second quarter of 2020 until mid-June.

### Maturing Commercial Papers of ACR

MATURITY DATE	FUNDER	RATE	TENOR	MATURITY VALUE
07/10/2020	Various Funders		182 days	608,000,000
08/11/2020	Various Funders		364 days	402,000,000
				<b>1,010,000,000</b>

Short term loans are availed to partially finance various project costs that are currently being developed. Once these projects under development are implemented, these project costs will be consolidated and funded from longer term funding. No portion of the short-term loans availed by ACR is being used by the Company's subsidiaries.

ACR's primary sources of income are dividends declared by its operating subsidiaries. ACR and its subsidiaries follow a dividend policy of annually declaring dividends from 20% of the previous year's unappropriated retained earnings. For a more detailed discussion on the Dividends, please see page 80.

The Company's issuance of CP is also opportunistic. Access in the CP will depend on the interest environment during the time of issuance.

No portion of the proceeds will be used to acquire major assets or finance the acquisition of other business nor will the proceeds be used to reimburse any officer, director, employee or shareholder for service rendered, assets previously transferred, and money loaned or advanced or otherwise. In addition, no portion of the proceeds will be used by the Company's subsidiaries.

The Sole Issue Manager, Arranger and Underwriter shall not receive any amount from the proceeds other than the underwriting, issue management and selling fees.

The foregoing discussion represents a best estimate of the use of proceeds of the Offer based on the Company's current plans and anticipated expenditures. In the event that there is any change in the Company's disbursement plan, including force majeure, the Company will carefully evaluate the situation and may reallocate the proceeds and/or hold such funds on short term deposit whichever is better for the Company's and its shareholders' interest taken as whole. In such event, the Company will issue an announcement if there is any material change in the above proposed use of proceeds.

In the event of any significant deviation, material adjustment or reallocation in the planned use of proceeds, the Company will secure the approval of its Board of Directors for such deviation, adjustment or reallocation and promptly make the appropriate disclosures to the SEC and the PDex.

## DETERMINATION OF THE OFFER PRICE

The CPs shall be issued at a discount to face value.

Below is an illustration of the computation of the Offer Price for an Issuance:

### Offer Price Computation

	Series L	Series M	Series N
Tenor (in Days)	91	182	364
Discount Rate	4.252%	4.910%	5.595%
<b>Cost Breakdown</b>			
Face Value	5,000,000.00	5,000,000.00	500,000.00
Discount	(53,169.09)	(105,219.29)	(20,610.14)
Tax on Discount	10,633.82	21,403.86	4,122.03
Cost	4,957,464.73	4,915,824.56	483,511.89
Offer Price	99.15%	98.32%	96.70%

The discount rates used are for illustration purposes only and are subject to change. The rates were computed based on the the discount rate formula, which sets the base rate as a) the three-day average BVAL Reference Rate of the corresponding tenor; or b) the weighted average accepted yield of the 28-day tenor of the Term Deposit Facility of the BSP whichever is higher as of April 17, 2020.

Again for the purpose of illustration, the following credit spreads were applied: for Series L, 100 bps; for Series M, 150; for Series N, 200 bps.



## **PLAN OF DISTRIBUTION**

The Company plans to issue the CPs in one lump sum or several tranches, through the designated issue manager, underwriter and selling agents. The CPs shall be issued in the 2<sup>nd</sup> quarter of 2020.

### **ISSUE MANAGER/UNDERWRITER AND UNDERWRITING OBLIGATION**

The Company has engaged Multinational Investment Bancorporation as its Underwriter pursuant to an Underwriting Agreement (the “Underwriting Agreement”). The Underwriter has agreed to act as the Underwriter for the Offer and as such, distribute and sell the CPs at the Offer Price, and has committed to underwrite the CPs worth up to Php1,000,000,000 on a best-effort basis, in either case subject to the satisfaction of certain conditions and in consideration for certain fees and expenses. There is no breakdown of Commercial Papers for particular series for distribution. Any unsold portion would be sold at a future date, since the issuance is under a three-year shelf-registration.

The Underwriter is duly licensed by the SEC to engage in distribution of securities to the public. The Underwriter may, from time to time, engage in transactions with and perform services in the ordinary course of business with the Company and its related companies. There is no appointed syndicate of sub-underwriters.

Multinational Investment Bancorporation is the oldest existing independent investment house in the Philippines. It provides a full range of investment banking services that include debt and equity underwriting, loan syndication and financial advisory services for mergers and acquisitions, corporate reorganization and financial restructuring.

The Underwriter has no direct relations with the Company in terms of ownership. The Underwriter has no right to designate or nominate any member of the Board of the Company.

### **SALE AND DISTRIBUTION**

The distribution and sale of the CPs shall be undertaken by the Underwriter and Selling Agents, as applicable, who shall sell and distribute the CPs to third party buyers/investors. Nothing herein shall limit the rights of the Underwriter and each Selling Agent as applicable, from purchasing the CPs for its own account. There are no persons to whom the CPs are allocated or designated. The CPs shall be offered to the public at large and without preference. The allocation to the investors will depend on their orders which will be subject to scaling done in case of oversubscription.

Unless otherwise terminated, the engagement of the Sole Issue Manager, Arranger and Underwriter and Selling Agents shall subsist so long as the SEC Permit to Sell remains valid.

### **FEES AND COMMISSIONS**

The Company will pay the Underwriter a fee of 0.50% per annum on the aggregate face value of the CPs issued, which is inclusive of the underwriting and the selling agency fees, as applicable. The fees shall be deductible from the gross proceeds of the Offer on Issue Date.

The Company paid the Issue Manager a flat fee of Pesos: Two Million Five Hundred Thousand (Php 2,500,000.00). As the Issue Manager for the Offer, MIB has agreed to perform services which include conducting due diligence on the Company, evaluating the marketability of the Offering, assisting in the preparation of the prospectus and other required documents, coordinating the activities of all third parties appointed for the Offer, arranging and managing necessary marketing activities and such other services as may be mutually agreed between ACR and MIB.

#### **OFFER PERIOD**

The Offer Period shall commence upon or immediately after issuance by the SEC of the Permit to Sell, and will end 15 working days after the start of the offer period or earlier as deemed appropriate by the Issuer.

## DESCRIPTION OF THE SECURITIES TO BE REGISTERED

Instrument	:	Registered Commercial Paper
Issue Size	:	Php 1,000,000,000.00 face value to be issued in one lump sum or multiple tranches; the Commercial Papers may be issued and reissued, in each case, in whole or in part and in one or more series, within three (3) years from the date of the SEC order rendering the Registration Statement effective and a corresponding Permit to Sell covering the Commercial Paper Program.
Method of Issue	:	The Issuer may, in consultation with the Sole Arranger and Lead Underwriter, issue or reissue, in whole or in part, the Commercial Papers covered by the Registration Statement, in one or more series under Rule 12.1.2.5 of the Implementing Rules and Regulations of the Securities Regulation Code provided that a) the outstanding amount of the Commercial Papers at any time shall not exceed One Billion Pesos (PhP 1,000,000,000.00).; b) the Commercial Papers are issued within three (3) years following the Registration Statement Effectivity Date.
Issue or Offer Price	:	Discount to face value of the CPs
Use of Proceeds	:	To partially finance the redemption of its maturing Commercial Papers
Discount Rate for Initial Issuance	:	<p>The sum of the Base Rate and the Credit Spread determined prior to each Issue Date (the "Rate Setting Date")</p> <p>The following are the indicative discount rates for the Initial Issuance:</p> <p>Series L: BVAL 3Mos</p> <p>Series M: BVAL 6Mos</p> <p>Series N: BVAL 9Mos</p>
Discount Rate for Subsequent Issuance/s	:	The interest/discount rate for the subsequent issuance/s shall be set by the Issuer in consultation with the Sole Arranger which may be determined based on the corresponding Benchmark Rate plus Spread
Base Rate	:	The Base Rate is the higher of a) the three-day average BVAL Reference Rate of the corresponding tenor, or b) the rate of the closest tenor of the Term Deposit Facility of the Bangko Sentral ng Pilipinas

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The BVAL Reference Rate for each series is as follows:

Series L: BVAL 3Mos

Series M: BVAL 6Mos

Series N: BVAL 12 Mos

In the event that the BVAL Reference Rates are replaced by a different calculation methodology, the applicable replacement reference rates shall apply.

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Tenor of the Initial Issuance	: Up to three hundred sixty (364) days; provided portions of the issuance of the CPs may, as determined by the Issuer in consultation with the Sole Issue Manager, Arranger and Underwriter, have the following tenor/term. The day count convention is Actual/360.  Series L: 91 days Series M: 182 days Series N: 364 days
Tenor for Subsequent Issuance/s	: The tenor of succeeding issues may range from thirty (30) days up to the maximum tenor allowed by the Securities and Exchange Commission (SEC) under the relevant provisions of the Securities Regulation Code (SRC)
Denomination	: For Series L and M:  Minimum of Pesos: Five Million (Php5,000,000.00) face value and increments of Pesos: One Hundred Thousand (Php100,000.00)  For Series N:  Minimum of Pesos: Five Hundred Thousand (Php500,000.00) face value and increments of Pesos: One Hundred Thousand (Php100,000.00)
Issue Date	: The CPs may be issued in either lump sum or tranches on a when and as needed basis in consultation with the Issuer upon approval by the SEC and issuance of the Permit to Sell any time within three (3) years following the RS Effectivity Date.
Reissuance Procedure	: Issuer reserves the right during the validity of the Registration Statement for the Commercial Papers to a) issue additional Commercial Papers; or b) reissue Commercial Papers that have matured and are repaid on the relevant Maturity Date; provided that, at any time during the three (3)-year validity of the Registration Statement, there will be no more than

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	<p>Php1,000,000,000.00 in aggregate principal amount of Commercial Paper outstanding and none of the Commercial Papers will have a maturity date of 365 days or more; provided further, that at the maturity date of any outstanding Commercial Papers for another term of not more than 365 days; provided further, that any and all relevant taxes, including, but not limited to documentary stamp tax on the indebtedness, shall be paid by the issuer for each issuance and reissuance of the Commercial Papers.</p>
Spread over the Benchmark Rate	<p>: The Credit Spread for the Initial Issuance of each series is as follows:</p> <p>Series L: TBD</p> <p>Series M: TBD</p> <p>Series N: TBD</p>
Interest Computation	<p>: The Interest/Discount Rate and Rollover Interest / Discount Rate will be calculated on a true-discount basis.</p>
Principal Repayment	<p>: The principal amount of the CPs will be repaid in full at their respective Maturity Dates, unless the investor provides written instruction to rollover the entire amount or a portion thereof.</p> <p>If such principal repayments is due on a day that is not a business day, the principal repayment date shall be made on the immediately succeeding business day. No additional interest will be paid in such case.</p>
Status	<p>: The CPs will constitute direct, unconditional, unsubordinated, general and unsecured obligations of the Issuer ranking at least pari passu in all respects and without preference or priority (except for any statutory preference or priority applicable in the winding-up of the Issuer) with all other outstanding unsecured and unsubordinated obligations (contingent or otherwise, present and future) of the Issuer.</p>
Form	<p>: The CPs shall be issued scripless and will be maintained in electronic form with the Registrar to be appointed for this purpose.</p>
Taxation on the Discount	<p>: Interest paid on the CPs shall be subject to a 20% final withholding tax.</p> <p>A CP holder who is exempt from or is not subject to the aforesaid withholding tax shall be required to submit a tax exemption certificate and other applicable documents.</p>

Registrar	: Philippine Depository & Trust Corporation
Paying Agent	: Philippine Depository & Trust Corporation
Facility Agent	: AB Capital and Investment Corporation

The Facility Agent is required under the Facility Agency Agreement to act on behalf of the CP Holders in calling for and/or attending meetings of the CP Holders.

A meeting of CP Holders may be called at any time and from time to time pursuant to the provisions of the Schedule 2 of the Facility Agency Agreement for the purpose of taking any action authorized to be taken by or on behalf of the CP Holders of any specified aggregate principal amount of CPs under any other provisions of this Agreement or under any other applicable law.

The Facility Agent may at any time call a meeting of the CP Holders on its own accord or upon the request by the Issuer or CP Holders holding at least twenty percent (20%) of the aggregate outstanding principal amount of the CPs to take any action specified in Clause 1 of this Schedule 2, to be held at such time and at such place as the Facility Agent shall determine. Notice of every meeting of CP Holders, setting forth the time and the place of such meeting in Metro Manila and the purpose of such meeting in reasonable detail, shall be sent to the Issuer and to each of the CP Holders and published in two (2) newspapers of general circulation in Metro Manila, Philippines not earlier than forty-five (45) days nor later than fifteen (15) days prior to the date of the meeting; Provided, that all reasonable costs and expenses incurred by the Facility Agent for the proper dissemination of required information on the requested meeting shall be paid or reimbursed, as applicable, by the Issuer within five (5) Business Days from receipt of the duly supported billing statement.

The above discussion is qualified by the more detailed information as contained in the Facility Agency Agreement. The said Agreement is available for inspection at the Facility Agent's office by the CP Holders upon their request.

Other Material Provisions Giving or Limiting the Rights of CP Holders	: In a CP Holders Meeting, the presence of the Majority CP Holders personally or by proxy shall be necessary to constitute a quorum to do business at any meeting of the CP Holders.
	The Facility Agent shall, by an instrument in writing, appoint a temporary chairman and secretary of the meeting from among the CP Holders then present or represented during the meeting, unless the meeting shall have been called by the

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Issuer or by the CP Holders as provided in Clause 3 of this Schedule, in which case the Issuer or the CP Holders calling the meeting, as the case may be, shall in like manner appoint a temporary chairman and secretary of the meeting from among the CP Holders then present or represented during the meeting. Any meeting of the CP Holders duly called pursuant to the provisions of this Section may be adjourned from time to time for a period or periods not to exceed in the aggregate one (1) year from the date for which the meeting shall originally have been called, and the meeting so adjourned may be held on another date without further notice. Any such adjournment may be ordered by persons representing a majority of the aggregate principal amount of the CPs represented at the meeting and entitled to vote, whether or not a quorum shall be present at the meeting.

To be entitled to vote at any meeting of the CP Holders, a person must be a registered holder of the CPs or a person appointed by an instrument in writing as proxy by any such CP Holder as of the date of such meeting. The only persons who shall be entitled to be present or to speak at any meeting of the CP Holders shall be the persons entitled to vote at such meeting and any representative of the Issuer and its counsel.

All matters presented for resolution by the CP Holders in a meeting duly called for the purpose shall be decided or approved by the affirmative vote of the majority of the CP Holders present or represented in a meeting at which there is a quorum, except as otherwise provided in this Agreement. Any resolution of the CP Holders which has been duly approved with the required number of votes of the CP Holders as herein provided shall be binding upon all the CP Holders and the Facility Agent as if the votes were unanimous.

Notwithstanding any other provisions of this Agreement, the Facility Agent may make such reasonable regulations as it may deem advisable for any meeting of the CP Holders, in regard to proof of ownership of CPs, the appointment of proxies by registered holders of CPs, the appointment and duties of inspectors of votes, the submission and examination of proxies, certificates and other evidences of the right to vote, and such other matters concerning the conduct of the meeting as it shall deem fit.

Wherever in this Agreement it is provided that the holders of a specified percentage of the aggregate outstanding principal amount of CPs may take any action (including the making of any demand or request, the giving of any notice or consent, or the taking of any other action), the fact that at the time of taking any such action the holders of such specified percentage

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	<p>have joined therein may be evidenced by:</p> <ul style="list-style-type: none"> <li>(a) any instrument executed by the CP Holders in person or by the agent or proxy appointed in writing;</li> <li>(b) the duly authenticated record of voting in favor thereof at the meeting of the CP Holders duly called and held in accordance with this clause; or</li> <li>(c) a combination of such instruments and any such record of meeting of the CP Holders.</li> </ul>
Secondary Trading	: The CPs are intended to be listed at the PDEX for secondary trading of the CPs and upon such listing, all secondary trading may be coursed through eligible PDEX Trading Participants. However, there can be no assurance that listing the CPs will materially affect their liquidity on the secondary market.
Minimum Denomination for Secondary Trading	<p>: Minimum of Pesos: One Hundred Thousand (Php100,000.00) face value and increments of Pesos: Ten Thousand (Php10,000.00).</p> <p>Secondary market trading and settlement are governed by the relevant rules of PDEX and are subject to the applicable fees of PDEX and the Registry, all of which shall be for the account of the investors.</p>
Market Maker	: Multinational Investment Bancorporation
Manner of Purchase	: The CPs will be available for sale from the Underwriter / Arranger and Selling Agents, if any, subject to minimum purchase amount and denomination.
Acceptance/Rejection of the Application	: The Issuer and the Issue Manager and Underwriter/Arranger reserves the right to accept or reject any application for CPs. In case of over-subscription, the Issuer and the Issue Manager and Underwriter/Arranger reserve the right to allocate the CPs available to the investors in a manner they deem appropriate.
Delivery of CP	: Delivery of the CPs will be made upon full payment of the Offer Price to the Underwriter/Arranger and/or Selling Agents
Liabilities	: The Company as the CP issuer is liable and responsible for any and all obligations arising from the sale of the CP as provided under pertinent sections of the Negotiable Instruments Law, the SRC and applicable laws of the Philippines as well as the Underwriting Agreement and related agreements. In addition, the Issuer is responsible for complying with all reportorial requirements of the SEC in connection with the issuance of the CP.



Credit Rating	<p>: The Issuer has a rating of PRS A plus as assigned by Philratings effective April 30, 2020.</p> <p>Philratings assigned an issuer credit rating of PRS A plus (corp.) for Alsons Consolidated Resources, Inc. based on the following considerations:</p> <ul style="list-style-type: none"> <li>(i) the development projects in Mindanao that are supportive of the growth of the region's power industry;</li> <li>(ii) the Company's ability to establish joint ventures with strong partners for particular projects;</li> <li>(iii) its planned expansion projects which will further diversify its generation mix;</li> <li>(iv) its improving profitability, albeit with the need to improve on its liquidity position;</li> <li>(v) the challenges it encountered in securing bilateral contracts for its diesel power plants; and</li> <li>(vi) the increasing economic and market uncertainty caused by the COVID-19 pandemic.</li> </ul>
Security	<p>: Negative pledge on the Company's existing and future assets, except (i) to secure statutory obligations, (ii) to enable the Company to continue to enter into its usual transactions in the ordinary course of business, (iii) those imposed by law or arising out of pledges or deposits under workmen's compensation laws or other social security or retirement benefits or similar legislation, and (iv) those created for the purpose of paying current taxes, assessments or other governmental charges which are not delinquent or remain payable without any penalty, or the validity of which is contested in good faith by appropriate proceedings upon stay of execution of the enforcement thereof.</p>
Cross Default	<p>: The Company shall be considered to be in default in case the Company fails to pay or defaults in the payment of any installment of the principal or interest relative to, or fails to comply with or to perform, any other material obligation, or commits a breach or violation of any of the material terms, conditions or stipulations, of any agreement, contract or document with any persons to which the Company is a party or privy, whether executed prior to or after the date hereof, or under which the Company has agreed to act as guarantor, surety or accommodation party, which, under the terms of such agreement, contract, document, guaranty or suretyship, including any agreement similar or analogous thereto, shall constitute a material default thereunder after allowing for all</p>

	<p>applicable grace periods. No default will occur under this clause if the aggregate amount the Company fails to pay is less than Php 35 million (or its equivalent in any other currency or currencies)".</p>
Other Terms and Conditions	<p>: The CPs will not be convertible to any other security or equity of the Issuer.</p> <p>The Issuer will not set up any sinking fund for the redemption of the CPs.</p> <p>Substitution of the CP with another type of security will not be permitted.</p> <p>Other terms and conditions as may be agreed upon among the Issuer, the Issue Manager and Underwriter/Arranger.</p>
Loan Covenants	<p>: On November 25, 2015, ACR entered into a fixed rate corporate notes facility with various noteholders with aggregate principal amount of P7,500 million divided into two (2) tranches: (a) Tranche A with principal amount of P5,600 million, subject to fixed interest rate of 7.24% and payable within five (5) years from the drawdown date and (b) Tranche B with principal amount of P1,900 million, subject to fixed interest rate of 7.92% and payable in annual installment of P19 million for the first six (6) years with balloon payment of P1,786 million on the 7th year from the drawdown date. Proceeds of the loan shall be used to prepay ACR's existing long-term debts and finance the investments in power-related assets. In December 2015, ACR had drawn the entire loan facility amounting to P7,500 million. In 2018, the Company made a partial payment of Php 1.4 billion and total outstanding amount is at Php 6.04 billion.</p> <p>ACR shall maintain certain financial ratios such as debt-to-equity ratio of not more than 2.9 and 2.61, and interest coverage ratio of not less than 1.58 and 1.95 as at December 31, 2019 and 2018, respectively. As at December 31, 2019 and 2018, ACR is in compliance with the debt covenants.</p> <p>Throughout the term of the loan, the interest reserve account is required to have a balance of not less than the aggregate amount of interest falling due within the next interest period which is equivalent to one-year interest period as defined in the loan agreement. As at December 31, 2019 and 2018, the remaining balance of interest reserve account amounted to P230 million and P239 million, respectively. Interest income earned from interest reserve account amounted to P15 million, P8 million and P6 million in 2019, 2018 and 2017, respectively.</p>

## **INTEREST OF NAMED EXPERTS AND COUNSEL**

The validity of the CPs and tax matters pertaining thereto were passed upon by Martinez Vergara Gonzalez & Serrano Law (MVGS), the third party transaction counsel. MVGS has no shareholdings or any interest, direct or indirect, in the Company, or any right, whether legally enforceable or not to nominate persons or to subscribe to the securities of the Company in accordance with the standards on independence required in the Code of Professional Responsibility and as prescribed by the Supreme Court of the Philippines.

The Philippine Depository & Trust Corporation, the Registrar and Paying Agent, has no direct and indirect interest in the Company.

The financial statements of the Company for the periods ended December 31, 2019, 2018 and 2017 appearing in this Prospectus have been audited by SyCip Gorres Velayo & Co., independent auditor, as set forth in their report thereon appearing elsewhere herein. The partner-in-charge for the periods ended December 31, 2019, 2018 and 2017 is Mr. Martin C. Guantes, CPA.

Castillo Laman Tan Pantaleon & San Jose (CLTPSJ) Law Firm is the legal counsel for the Company. CLTPSJ has no shareholdings or any interest, direct or indirect, in the Company, or any right, whether legally enforceable or not to nominate persons or to subscribe to the securities of the Company.

Subido Pagente Certeza Mendoza & Binay (SPCMB) Law Firm is the legal counsel for the Underwriter. SPCMB has no shareholdings or any interest, direct or indirect, in the Company.

There is no arrangement that experts shall receive a direct or indirect interest in the Company or was a promoter, underwriter, voting trustee, director, officer, or employee of Company.

## INDUSTRY OVERVIEW

*The information and data contained in this section have been taken from sources in the public domain. The Company does not have any knowledge that the information herein is inaccurate in any material respect. Neither the Company nor the Sole Issue Manager, Arranger and Underwriter nor any of their respective affiliates or advisors has independently verified the information included in this section.*

### OPERATING ENVIRONMENT<sup>1</sup>

Mindanao is the second biggest island of the country.

Mindanao has a high potential for agro-industrial development. It is endowed with eight major river basins, namely: Agusan, Tagoloan, Cagayan de Oro, Tagum, Libuganon, Davao, Buayan-Malungon, Agus and the Mindanao River – all of which could supply water for irrigation and other related needs.

One-third of the Mindanao land area is devoted to agriculture. Mindanao supplies over 40 percent of the country's food requirements and contributes more than 30 percent to national food trade. It is also the country's major producer of rubber, pineapple, banana and coffee.

Mindanao can also be developed into a top tourist destination given the cultural diversity of its people and its resource-rich environment. Its tourism industry represents about 17 percent of the national tourist traffic.

Mindanao is endowed with rich mineral resources. The CARAGA and Davao regions contribute the most to the national output with more than eight percent each. Eastern Mindanao, North Central Mindanao, Zamboanga Peninsula, and Southeastern Mindanao are considered high-interest mining areas, with rich deposits of gold, copper, iron, chromium, nickel, cobalt and manganese.

Mindanao also has vast potential for renewable energy sources. Substantial volumes of agricultural residues are a potential source of biomass energy; Siargao Island and Davao Oriental are ideal sites for ocean energy generation; while Surigao is a potential site for wind power.

#### Power Situation

Energy security is crucial to the continued growth of industries in Mindanao.

The experiences of the region in the early part of the decade is a testament to that. Then, it had high dependency on hydropower which at the time contributed over half of the power generated which in turn made climate change a real threat to Mindanao's energy security. In particular, increasing incidence of El Niño have reduced water levels and hampered power supply. The situation has been aggravated by the degradation of Mindanao's watersheds like Lake Lanao, which is the primary source for the Agus Hydro- Electric Power Plants. However, the relative importance of hydro to the supply mix had decreased in recent years due to the operation of new power plants that utilize other sources of energy.

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<sup>1</sup> Source: National Economic Development Authority's Mindanao Strategic Development Framework 2010 - 2020

Mindanao has gone a long way from then and it has promptly caught up in terms of supply, now with the highest reserve margin percentage among the three grids. On the demand side, sales and consumption recorded a sustained accelerated growth of 8.2% in 2018 on a per-grid basis, higher compared with 4% a year ago as all sectors grew on the back of an adequate and more stable supply of power.

As shown in the table below, in 2019, the capacities in Mindanao rose significantly compared to previous years after the entry of new power plants coming from base-load coal (118.5 MW SEC U2 and a total of 450 MW from GNPOWER Kauswagan U1, U2, and U3), solar (25 MW ground mounted solar PVs ADG), and hydro (8 MW Run-of-Rivertype HEPP ASIGA).

#### **2019 vs. 2018 Installed and Dependable Capacity, Mindanao (in MW)**

Fuel Type	Mindanao					
	Installed Capacity			Dependable Capacity		
	2019	2018	Diff.	2019	2018	Diff.
Coal	2,089	1,521	568	1,874	1,355	519
Oil Based	936	942	(6)	771	778	(7)
Natural Gas	0	0	-	0	0	-
Geothermal	108	108	0	103	100	3
Hydro	1,147	1,134	13	991	978	13
Biomass	73	51	22	25	14	11
Solar	84	59	25	67	44	23
Wind	0	0	-	0	0	-
<b>TOTAL</b>	<b>4,436</b>	<b>3,815</b>	<b>621</b>	<b>3,832</b>	<b>3,269</b>	<b>563</b>

*Source: DOE List of Existing Power Plants, December 2019 & 2018*

#### **POWER GENERATION**

As mentioned earlier, Mindanao, was susceptible to weather phenomena particularly El Niño during the early part of the decade. With it persisting through 2018, its effect can still be observed as evidenced by the drop in the total power generated by hydro sources as shown on the table below. However, this decline was offset by the increase in generation output from new sources, primarily large coal fired power plants.

### 2018 and 2017 Comparative Gross Generation, Mindanao

MINDANAO GRID						
Plant Type	2018		2017		Difference	
	GWh	% Share	GWh	% Share	GWh	% Growth Rate
Coal	7,785	61%	6,271	53.1%	1,514	24.14%
Oil-based	633	5%	867	7.3%	(234)	(26.99%)
Geothermal	826	6.5%	797	6.8%	29	3.64%
Hydro	3,366	26.4%	3,791	32.1%	(425)	(11.21%)
Biomass	72	0.6%	0	0.0%	72	-
Solar	88	0.7%	78	0.7%	10	12.82%
<b>Total Generation</b>	<b>12,770</b>	<b>100%</b>	<b>11,804</b>	<b>100%</b>	<b>966</b>	<b>8.18%</b>

Source: DOE Power Statistics 2018 and 2017

## **Significant Events <sup>2</sup>**

Mindanao also has improved in terms of having lesser Red and Yellow alert notices since 2018, compared to the previous years due to the development of additional stable capacity from large coal-fired power plants in the grid. There were only two recorded major incidents in the Mindanao grid that cause a partial blackout namely the transmission line tripping on 8 November 2018 that affected areas in Zamboanga peninsula as well as the provinces of Lanao and Misamis Oriental and the 6.3 magnitude earthquake that hit North Cotabao in October 16, 2019 which caused interruptions in at least six electric cooperatives.

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<sup>2</sup>[https://www.doe.gov.ph/sites/default/files/pdf/electric\\_power/2018\\_power\\_situation\\_report.pdf](https://www.doe.gov.ph/sites/default/files/pdf/electric_power/2018_power_situation_report.pdf)  
<https://www.pna.gov.ph/articles/1083460>

# THE COMPANY

## Company Overview

ACR is a Philippines-based investment holding company. The Company is engaged in the business of exploration of oil, petroleum and other mineral products. The Company's business, conducted through its subsidiaries and associates, is grouped into various categories, such as Energy and Power, Property Development and Other Investments. ACR's investment in Energy and Power business is through four holding firms namely, Conal Holdings Corporation, Alsing Power Holdings, Inc., Alsons Renewable Energy Corporation and Alsons Thermal Energy Corporation. ACR is engaged in the Property Development business through its subsidiary, Alsons Land Corporation (ALC). ALC is engaged in an approximately 72-hole golf course development with a residential component called the Eagle Ridge Golf and Residential Estate. ACR, through ACR Mining Corporation (ACR Mining), is engaged in the acquisition of interest in Manat Mining Claims<sup>3</sup>.

## History

ACR was incorporated on December 24, 1974 as Victoria Gold Mining Corporation to engage in the business of exploration of oil, petroleum and other mineral products. The corporate name was changed to Terra Grande Resources, Inc. (Tegre) in March 1995.

In 1994, the Alcantara Group, through Alsons Power Holdings Corporation (APHC), acquired a 55.80% interest in Tegre through a swap of APHC's 50.78% stake in Northern Mindanao Power Corporation (NPMC). The Securities and Exchange Commission formally approved the stock swap on March 4, 1995 together with the increase in the Company's authorized capital stock from P1 billion to P3 billion.

The corporate name was changed to Alsons Consolidated Resources, Inc. in June 1995 to mark the entry of the Alcantara Group. The Company's primary purpose was subsequently changed to that of an investment holding company, and oil exploration was relegated to a secondary purpose.

On October 10, 1996, the Company completed its reorganization through a series of stock swaps. As a result of this reorganization, some of the Alcantara Group's established businesses became majority or minority owned subsidiaries of ACR and the Company's authorized capital was further increased from P3 billion to P12 billion.

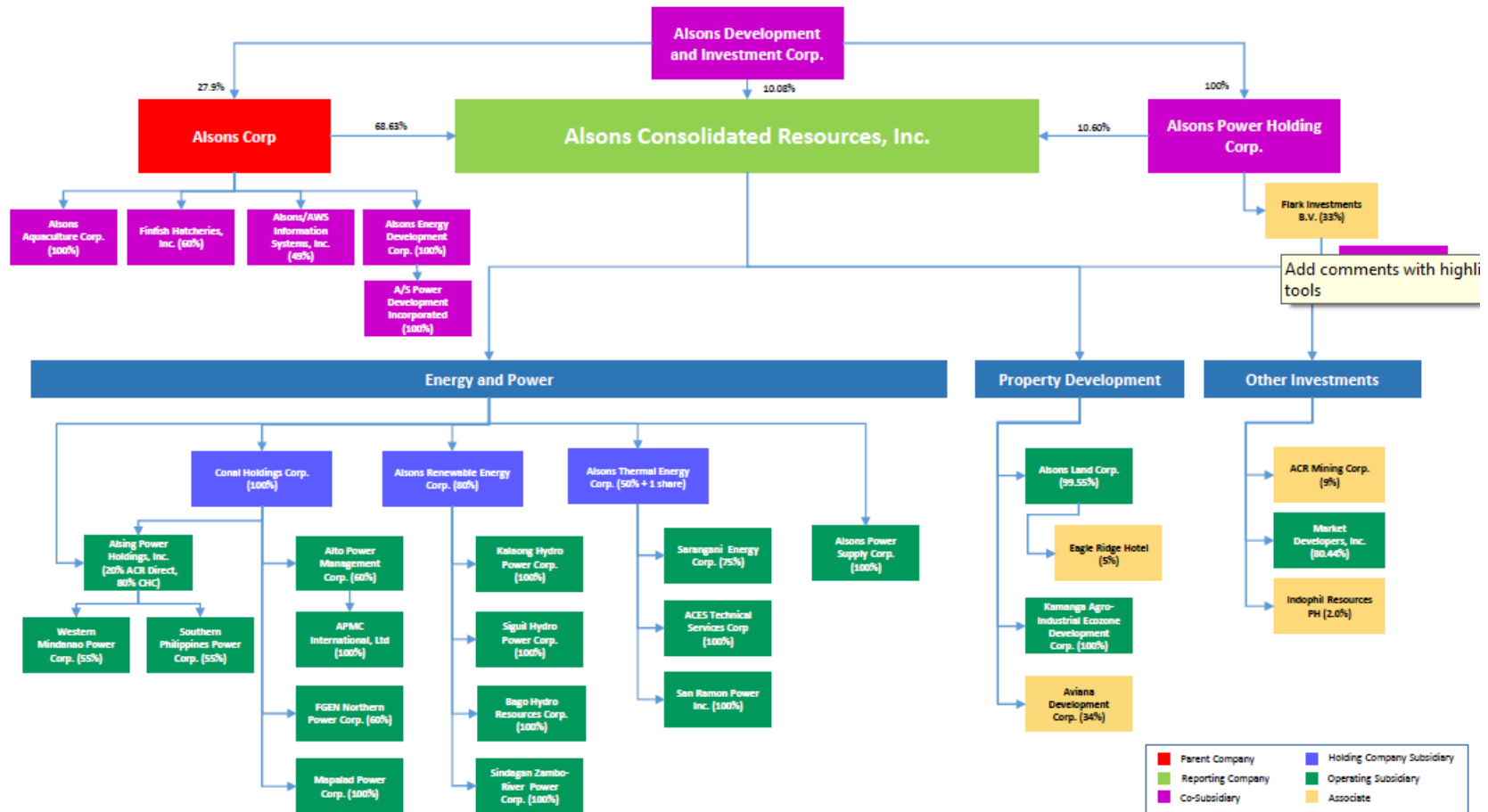
ACR's core businesses, conducted through its various subsidiaries and associates, can be grouped into the following main categories: a) Energy and Power, b) Property Development, and c) Other Investments. A description of the general nature and scope of these businesses is presented below:

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<sup>3</sup> <http://markets.ft.com/data/equities/tearsheet/profile?s=ACR:PHS>



## Corporate Structure



## Business Segments

### Energy and Power

ACR's investment in the Energy and Power business is through four holding firms namely, Conal Holdings Corporation (Conal or CHC) and Alsing Power Holdings, Inc. (Alsing), Alsons Renewable Energy Corporation (AREC) and Alsons Thermal Energy Corporation (ATEC).

*The four holding firms:*

1. Conal owns all of ACR's diesel plants operating power generation businesses, namely: (1) Alsing Power Holdings, Inc. at 80%, (2) Alto Power Management Corporation at 60%, and (3) Mapalad Power Corporation at 100%.
2. Alsing, in turn, owns 55% of: (a) Western Mindanao Power Corporation; and (b) Southern Philippines Power Corporation. Further, ACR directly owns 20% of Alsing.
3. AREC, which was organized on October 2, 2014 is currently in the process of developing Siguil Hydro Power Corporation ("Siguil") and Kalaong Hydro Power Corporation ("Kalaong"), Bago Hydro Resources Corporation and Sindangan Zambo-River Power Corporation, all in the business of renewable energy, and holds 100% of these entities.
4. ATEC was organized on December 3, 2015, and ACR transferred its ownership in Sarangani Energy Corporation (Sarangani Energy) to ATEC on October 13, 2016.

ACR also formed Aces Technical Services Corporation (ACES), a wholly-owned subsidiary, on July 7, 2011, and it serves as the operations and maintenance provider of Sarangani Energy and San Ramon Power, Inc. (SRPI). ACR transferred its ownership in ACES and SRPI to ATEC on October 12, 2016, and May 24, 2017, respectively.

On June 3, 2017, the Company signed an agreement with Global Business Power Corporation (GBP) for GBP to acquire a 50% less one share stake in ATEC. The Philippine Competition Commission approved the transaction on September 25, 2017, and the Deed of Absolute Sale was signed on November 27, 2017. The partnership combines ACR's distinct knowledge of the Mindanao power market, development thru long years of experience as the island's first independent power producer and with GBP's track record as the leading power producer in the Visayas. The Company believes that this endeavor will greatly benefit power consumers particularly in light of the planned interconnection of the Mindanao and Visayas grids. The partnership will also give ACR the opportunity to pursue with greater strength its energy-based projects, particularly its renewable power generating plants in Mindanao and Western Visayas. This will also allow ACR to accelerate its foray and entry in other energy-related enterprises in Southern Philippines, including the smaller islands with promising growth in power demands.

ACR also has a majority-owned subsidiary, Alto Power International Limited (APIL), which develops power plant projects outside the country.

The four (4) operating power generation subsidiaries, WMPC, SPPC, MPC, and Sarangani Energy are all located in Mindanao.

*The four operating power plants:*

1. WMPC operates a 100-megawatt (MW) diesel-fired electricity generating facility in Zamboanga City as a merchant plant after its 18-year “Build-Operate-Own” (BOO) arrangement with the National Power Corporation (NPC) expired in December 2015.
2. SPPC owns a 55 MW diesel-fired electricity generating facility located in Alabel, Sarangani Province, 13 kilometers east of General Santos City. SPPC’s 18-year BOO arrangement with NPC expired on April 28, 2016.
3. MPC rehabilitated the 103MW bunker-fired Iligan Diesel Power Plants (IDPPs) I and II, which Conal acquired from the Iligan City Government and started operating these plants on February 27, 2013. MPC currently functions as a merchant plant and serves various electric cooperatives in Mindanao.
4. Sarangani Energy’s 210MW coal-fired power plants are located in Maasim, Sarangani Province. Its first section of 105MW began commercial operations in April 2016, while its second section of another 105MW or Phase 2 started commercial operations on October 10, 2019.

ACR has also started construction of its first renewable energy project under Siguil Hydro Power Corporation, which will operate a 14.5MW run-of-river electricity generating facility located at the Siguil River basin in Maasim, Sarangani. ACR expects commercial operations to begin in 2022. The Company likewise began site development and clearing works for SRPI’s 105MW coal-fired power plant project, which could supply power to Zamboanga City and other parts of the Zamboanga Peninsula, with commercial operations expected to begin in 2023.

### **Property Development**

ACR is also engaged in the Real Estate Development and Project Management through its subsidiary, Alsons Land Corporation or ALC. ALC continues to enhance its real estate portfolio thru investments in projects with immediate development potential. These include residential, commercial, mixed-use, and township and estate projects that have trading income activities (sale), high value recurring income businesses (rentals), Joint Venture arrangements and Asset Management opportunities.

Launched in November 25, 1994, ALC was involved in the development of Eagle Ridge Residential Estates, and the Eagle Ridge Golf and Country Club, in Cavite. The latter Club boasts of 72 holes in 4 golf courses, each designed by a world-class golf legend. ACR also entered into a Joint Venture Agreement with Ayala Land Incorporated ( ALI ) to develop a 26-hectare world-class estate in Lanang, Davao City, Mindanao. The estate is set to be transformed into a master-planned, mixed-use community that will include residential low to mid-rise towers, commercial lots, offices, an events venue and a waterside cove with some retail components. A world-class medical facility will soon rise within the estate. The sustainable estate is set to be Davao’s prime waterside community, encapsulating a life of fluidity and ease within a vibrant locality and a buoyant economy south of the country; a paramount destination for the best in home, business and lifestyle in Mindanao.

ALC continues to grow its residential business when it embarked on the expansion of its Campo Verde subdivision in Batangas, a joint venture project with Sunfields Realty Development, Inc. The initial

project, which is an 11-hectare property located inside the Lima Technology Center, is close to selling out. This project is an hour away from Makati via the South Luzon Expressway and the Southern Tagalog Arterial Road Tollway. Campo Verde offers three (3) distinct Spanish-themed homes that are ideal for young to growing families. The model house choices range from: Condesa, with a lot area of 90 square meters and floor area of 36 square meters; Duquesa, with a lot size of 100 square meters and a floor area of 50 square meters; and Reina, with 120 square meter-lot and a floor area of 80 square meters.

Through ALC, ACR is also developing the Kamanga Agro-Industrial Economic Zone in the Municipality of Maasim, Province of Sarangani, where the power plant of Sarangani Energy is located. This “Ecozone” is accredited with the Philippine Execonomic Zone Authority (PEZA) as an agricultural and light-industry zone. Enterprises will be encouraged to set up their businesses in, or relocate to, this Ecozone to enjoy incentives prescribed by law through the PEZA. Kamanga Agro-Industrial Ecozone Development Corporation (KAIEDC) has successfully closed an agreement in December 2019 for the sale of 28-hectare property to a locator.

### **Other Investments**

In 2007, ACR infused capital in ACR Mining amounting to P195 million to support the latter’s acquisition of the 75% interest of Alsons Development and Investment Corporation (ADIC or ALDEVINCO) to explore and develop the Manat Mining Claims situated in the provinces of Davao del Norte and Compostela Valley.

ACR Mining was formerly known as ACR Management Corporation. Its initial activity involved the acquisition of ADIC’s interest in a mining claim, referred to as the Manat Mining Claims. Covered by Mineral Production Sharing Agreement (MPSA) Serial no. 094-97-XL for 25 years up to year 2022, the mining claim has a total area of 1,547.32 hectares. It is located in the Municipality of Nabunturan, province of Compostela Valley and in the Municipality of Maco, Province of Davao del Norte. Previous exploration work at the project area Magas. Detailed work on the Magas Vien Zone (MVZ) so far revealed an estimate inferred resource of 2.7 million tons containing: 2.8 g/t gold, 26 g/t silver, 0.09% copper, 0.85% lead, and 1.58% zinc. On May 24, 2015, the Board of Directors approved and declared ACR Mining as property dividend of record date of June 5, 2015. The SEC approved the Certificate of Filing the Notice of property Dividend on August 11, 2015. The Bureau of Internal Revenue issued its Certificate Authorizing Registration on February 22, 2016.

The Declaration of Mining Project Feasibility was submitted to the Mines and Geosciences Bureau on October 2012. As of today, the Manat MPSA is in exploration phase development.

## Business Segments Contribution to Revenues

As presented in the table below, the recurring income of ACR comes from power plant operations. Its investments in property development contributes only less than 1% of its total Revenues and is considered only a portfolio investment.

Business Segment	(Amounts in Thousand PhP)			% to Total		
	2019	2018	2017	2019	2018	2017
Energy and Power	P 6,783,110	P 6,637,810	P 6,494,069	100%	100%	100%
Property Development	12,986	28,461	24,832	0%	0%	0%
Total	P 6,796,096	P 6,666,271	P 6,518,901	100%	100%	100%

The Company had no income from foreign sources for the past 3 years.

## Material Partly- Owned Subsidiaries

The tables below show details of materially partly owned subsidiaries of ACR either directly or indirectly.

Business Segment	Principal Activity	Proportion Ownership Interest and Voting Rights Held by Non-controlling interest		
		2019	2018	2017
SPPC	Power Generation	45.0%	45.0%	45.0%
WMPC	Power Generation	45.0%	45.0%	45.0%
ATEC	Holding Company	50.0%	50.0%	100.0%
Sarangani Energy	Power Generation	62.5%	62.5%	25.0%

The summarized financial information in respect of the subsidiaries that have material non-controlling interests is set out below. The summarized financial information below represents amounts before intra-group eliminations.

Summarized statements of comprehensive income for each of the three period ended December 1 are as follows.

	2019			2018			2017		
	SPPC	WMPC	ATEC*	SPPC	WMPC	ATEC*	SPPC	WMPC	ATEC*
Revenue and other income	₱318	₱1,147,694	₱4,785,056	₱160,831	₱1,394,881	₱4,728,173	₱522,471	₱1,454,871	₱4,168,083
Expenses	(87,379)	(869,249)	(3,482,135)	(200,603)	(1,366,385)	(3,866,115)	(391,061)	(1,341,781)	(3,756,956)
Provision for income tax	12,265	(83,133)	(77,573)	(8,134)	(24,407)	(57,899)	(35,056)	(42,391)	(33,452)
Net income	(74,796)	195,312	1,225,348	(47,906)	4,089	804,159	96,354	70,699	377,675
Other comprehensive income (loss)	673	(1,389)	(13,187)	3,926	(10,215)	917	(876)	(498)	(470)
Total comprehensive income	(₱74,123)	₱193,923	₱1,212,161	(₱43,980)	(₱6,126)	₱805,076	₱95,478	₱70,201	₱377,205
Equity holders of the Parent Company	(₱40,768)	₱106,658	₱901,793	(₱24,189)	(₱3,369)	₱299,414	₱52,513	₱38,611	₱261,663
Non-controlling interests	(33,355)	87,265	310,368	(19,791)	(2,757)	505,662	42,965	31,590	115,542
	(₱74,123)	₱193,923	₱1,212,161	(₱43,980)	(₱6,126)	₱805,076	₱95,478	₱70,201	₱377,205

\*Based on consolidated balances of ATEC and its subsidiaries.

## Power Plants

### Overview of the Power Plants

The four (4) operating power generation subsidiaries, WMPC, SPPC, MPC, and Sarangani Energy are all located in Mindanao.

Presented below is a table summarizing relevant information about the Power Plants.

Power Plant	Parent Company	Status	Expected Life	Date of Construction	Start of Commercial Operation	Location	Capacity (MW)
WMPC	Alsing Power Holding	Operational	18 years	1996-1997	December 1997	Malasugat, Sangali Zamboanga City	100
MPC	Conal Holding Corp	Operational	30 years	1992-1993	July 1993 (MPC 1) December 1993 (MPC 2)	Sitio Mapalad, Dalipuga, Iligan City	103
SEC Phase 1	ATEC	Operating	25 years	04 June 2012 (LNTP) 28 December 2012 (NTP)	April 29, 2016	Barangay Kamanga, Maasim, Sarangani Province	105
SEC Phase 2	ATEC	Operational	25 years	14 July 2016 (LNTP) 14 October 2016 (NTP)	October 10, 2019	Barangay Kamanga, Maasim, Sarangani Province	105

## Status of publicly-announced new projects

1. The second phase of 105MW of the 210 MW Sarangani Energy power plant has started commercial operations on October 10, 2019. The President of the Philippines personally inaugurated the plant and also attended the launching of the Siguil Hydro Power Corporation's 14.5 MW project. This hydro project is the beginning of ACR's venture into renewable energy projects.
2. The 105MW SRPI power plant in Zamboanga City received its environmental compliance certificate from the Department of Environment and Natural Resources in March 2012. The Company has begun site preparation and clearing works. The total project cost is estimated at P16 billion. SRPI is still negotiating with various banks to finance the project. Once in operation, the SRPI coal-fired power plant would be able to service Zamboanga City and other nearby areas.

The Company has no existing patents, trademarks, copyrights, licenses, franchises, concessions and royalty agreements.

## Life of Power Plant

### Start of Commercial Operations:

- SARANGANI Phase 1 started commercial operation on April 29, 2016.
- SARANGANI Phase 2 started commercial operations on October 10, 2019.
- MPC started commercial operation on 2013.
- WMPC started commercial operation on 1997.
- SPPC started commercial operation on 1998.

### Expected Life:

- **SARANGANI** -The design life of both units, as per the respective EPC contracts, is 35 years.
- **WMPC** - the expected life is 40 years from start of commercial operations
- **MPC** – the expected life is 20 yrs from 2013, based on running hours
- **SPPC**: The expected life is 20 years from 2017, based on running hours.

After the expected life of the power plants, the Company conducts a plant study in order to extend the life of the power plants, especially if the plants are still required to be operational. This study takes into account the condition of equipment and facilities, the running and operating conditions over the previous designed life of the plant, licensing conditions, among other considerations. The purpose of the study is to produce a recommendation on whether it is viable to refurbish equipment and continue the plants' operations. The company sticks to their set scheduled maintenance regime and refurbish and replace equipment, as determined by inspections, condition monitoring and obsolescence. These enhancements will then extend the useful life of a power plant.

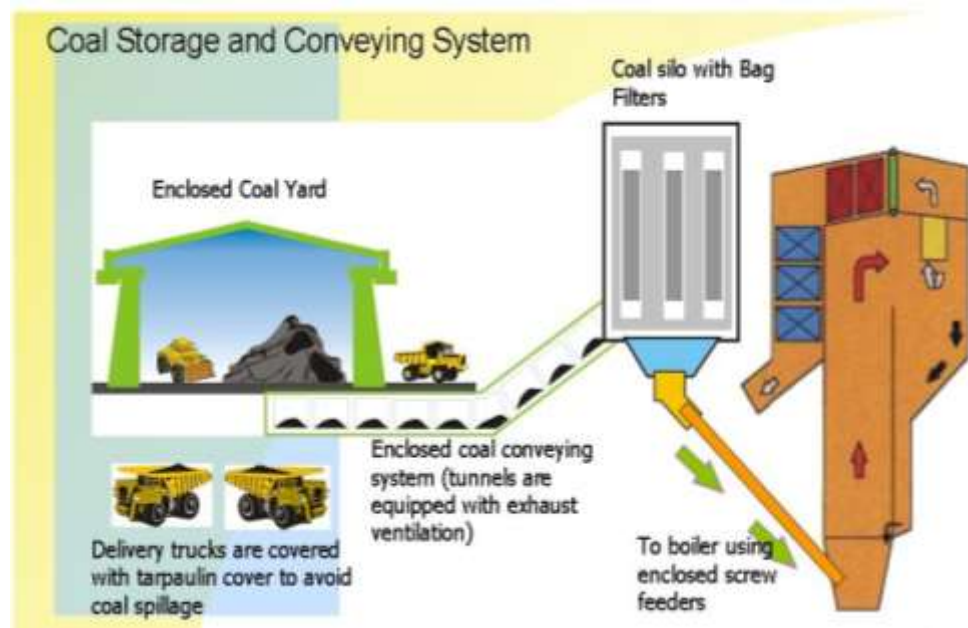
## Process Flow

From the four (4) operating power plant, only Sarangani is a coal-fired power plant. WMPC, MPC and SPPC are all diesel power plants.

Operating Power Plants	Type of Power Plant
SARANGANI	Coal-Fired Power Plant
WMPC	Diesel Power Plant
SPPC	Diesel Power Plant
MPC	Diesel Power Plant

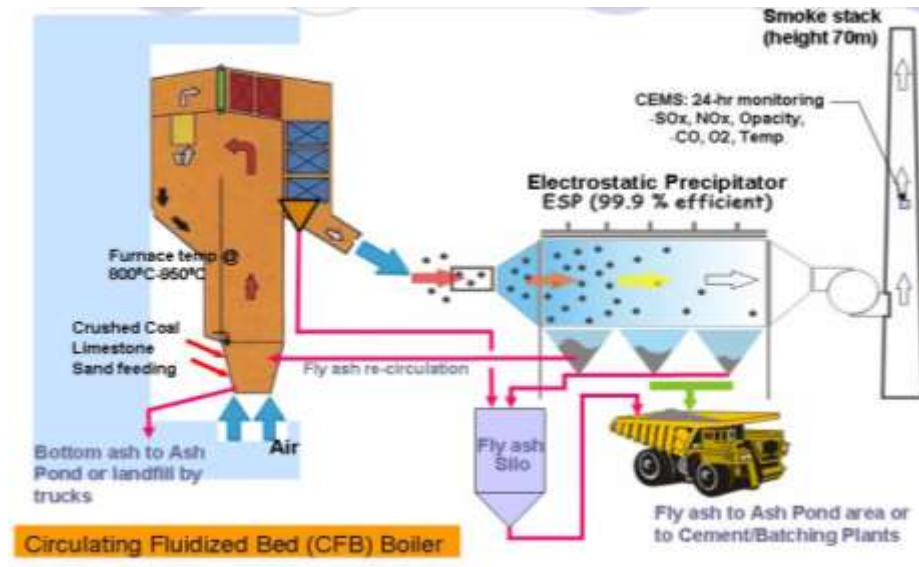
#### Coal Fired Thermal Power Plant<sup>4</sup>:

Coal is burnt in the boiler furnace to produce heat. Carbon in the coal and Oxygen in the air combine to produce Carbon Dioxide and heat. The heat from combustion of the coal boils water in the boiler to produce steam. The steam is then piped to a turbine. The high pressure steam impinges and expands across a number of sets of blades in the turbine. The impulse and the thrust created rotates the turbine. The steam is then condensed and pumped back into the boiler to repeat the cycle. After, rotation of the turbine rotates the generator rotor to produce electricity based of Faraday's Principle of electromagnetic induction.



<sup>4</sup> <http://www.brighthubengineering.com/power-plants/18082-coal-fired-thermal-power-plant-the-basic-steps-and-facts/>





### Diesel-Fired Power Plant<sup>5</sup>

A diesel engine is a type of internal combustion engine. An internal combustion engine transforms the chemical energy in fuel to mechanical rotational energy. To release the chemical energy in diesel effectively, an atomized form of the fuel is made to contact with high temperature and high pressure air. In diesel engines, this energy is effectively transferred as mechanical rotational energy. The operation of a diesel engine is all about producing high temperature and high pressure air continuously.

Piston, connecting rod, crank and cylinder form a mechanism called slider-crank mechanism. Here the linear motion of the piston is transformed to a rotary motion at the crank.

During the motion of the piston, the top most point it can reach is called Top dead centre (TDC) and the bottom most position the piston can reach is called as Bottom dead centre (BDC). In an IC engine, this mechanism is properly supported in an engine block. Cylinder head, valves and fuel injector are fitted above the engine block.

When the piston moves downwards, inlet valves open and fresh air from outside is sucked in, or, in other words, the engine breathes. This stroke is called as suction stroke.

During the return stroke, inlet and exhaust valves are closed and the air inside the cylinder gets compressed. During the compression stroke, the piston does work on the air. So the temperature and pressure of the air will rise to a level which is higher than the self ignition value of the diesel.

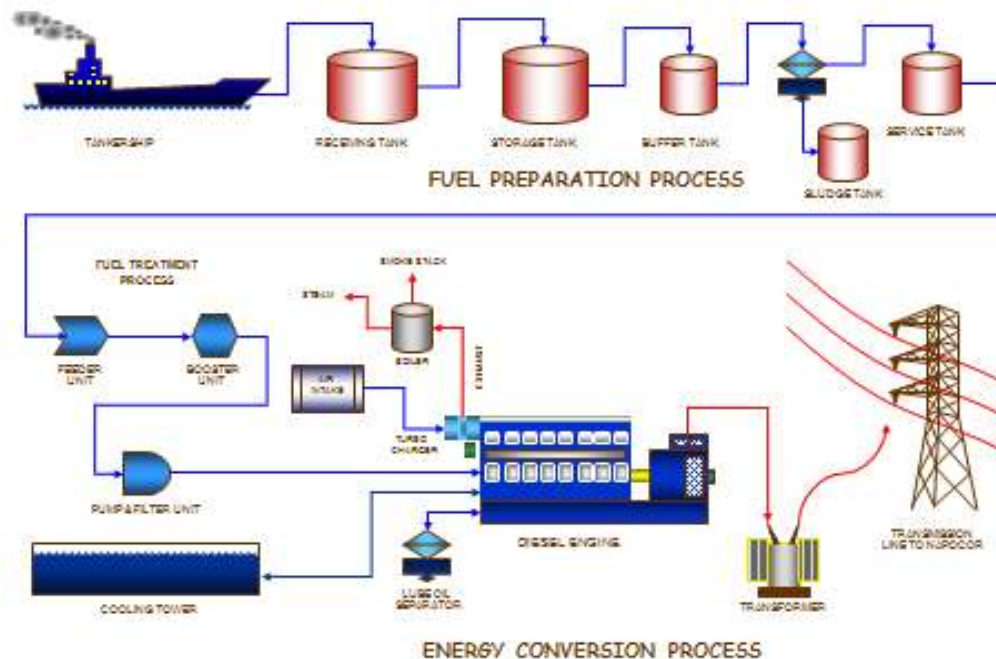
An atomized form of diesel is injected into this compressed air. The fuel gets evaporated and undergoes an uncontrolled spontaneous explosion. As a result, the pressure and temperature rise to high level values.

<sup>5</sup> <http://www.learnengineering.org/2014/10/Diesel-engine-Working.html>

The high energy fluid pushes the piston downwards. The hot air does work on the piston and energy in the fluid is converted to the mechanical energy of the piston. This is the only stroke where the piston absorbs power from the fluid.

Due to inertia of the system, the piston moves upwards again. This time the exhaust valves open and the exhaust are rejected. Again the suction stroke happens.

This cycle, which has a total 4 strokes, is repeated over and over for continuous power production.



### Distribution of Power to Customers (Distribution Utilities)

Power is generated in the power plants, following the process flow explained above. After which, power is transmitted through the grid to the Distribution Utilities. It is then the distribution utilities who will transmit the power to the end users.

### Sources and Availability of Raw Materials and Supplies

SPPC has not renewed Fuel Supply Agreement with Pilipinas Shell Petroleum that expired last September 1, 2019. MPC and WMPC each signed a Fuel Supply Agreement with Phoenix Petroleum Corporation for the supply of approximately 4 to 8 million liters of fuel per month for each plant. MPC's and WMPC's agreement is valid until March 2021.

WMPC and MPC has an agreement with Pilipinas Shell Petroleum Corporation for the supply of its lubricating oil, while SPPC's contract was terminated in 2018.

Wärtsilä Corporation of Finland supplies the engine parts and major maintenance services needed by the diesel plants.

Sarangani Energy Corporation has a fuel supply and transport agreement with Toyota Tsusho Corporation for low sulfur coal, or sub-bituminous coal, which is sourced from Kalimantan, Indonesia with net calorific value of 3,630 to 5,450 KCal per kilogram and its price based on GlobalCoal New Castle Index. The agreement is valid for 10 years from April 29, 2016 until 2026. The company is also procuring low sulfur coal via spot market or short term contracts with flexible pricing options with prices based on Global Coal New Castle Index, Indonesian Coal Index and or Fixed Price arrangements.

ACR is not expected to be dependent upon any one or limited number of suppliers for essential raw materials, energy or other items.

## **Related Party Transactions**

Parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial and operating decisions. Related parties include (a) enterprises that directly, or indirectly through one or more intermediaries, control or are controlled by, or are under common control with, the Group; (b) associates; and (c) individuals owning, directly or indirectly, an interest in the voting power of the Group that gives them significant influence over the Group and close members of the family of any such individual. In considering each possible related party relationship, attention is directed to the substance of the relationships, and not merely to the legal form.

All related party transactions shall be disclosed to the Group's Audit Committee ("the Committee") of the BOD and all transactions will be reviewed and approved by the Committee to ensure that a conflict of interest does not exist, a proper assessment of such transaction is made, and all necessary information is properly documented. Material related party transaction shall mean any individual related party transaction, or series of related party transactions over twelve (12) months, and with the same related party, amounting to, or exceeding, individually, or in the aggregate, the materiality threshold. Materiality threshold shall mean ten percent (10%) of the total assets of any of the parties to a transaction, based on that party's latest audited financial statements, and if the transaction is a material related party transaction, and one of the related parties is a parent of the other, the total assets shall pertain to the parent's total consolidated assets.

Transactions with related parties pertain mainly to cash advances and reimbursements of expenses.

Outstanding related party balances are generally settled in cash.

The table below shows the details of the Group's transactions with related parties.

Related Party		Advances	Due from Related Parties	Terms	Conditions
Major stockholders	2019	₱213,682,148	₱1,188,665,441	Payable upon demand, noninterest-bearing	Unsecured, no impairment
	2018	₱62,941,349	₱1,011,520,388		
Subsidiaries of major stockholders	2019	93,797,324	146,471,962	Payable upon demand, noninterest-bearing	Unsecured, no impairment
	2018	4,003,487	47,258,947		
Affiliates	2019	12,781,762	70,606,162	Payable upon demand, noninterest-bearing	Unsecured, no impairment
	2018	45,679,259	57,824,400		
Total	2019	₱320,261,234	₱1,399,743,565		
	2018	₱112,624,095	₱1,116,603,735		

The Parent Company guarantees the obligations of SPPC and WMPC with NPC under the Operational Performance Bonds in accordance with the terms and conditions of the ECAs and to answer for the liabilities that SPPC and WMPC may incur in connection with the said Performance Bonds.

Compensation of key management personnel amounted to P89 million, P91 million and P79 million in 2019, 2018 and 2017, respectively, representing short-term employee benefits.

The Related Party Transactions can be found in Note 20 of the Company's Consolidated Financial Statements for the year ending December 31, 2019.

## Customers

WMPC and MPC have secured, or are securing PSAs with various distribution utilities, and are currently moderately contracted. SPPC has no current PSA, but is exploring opportunities for relocating its engines to other locations. Sarangani Energy, on the other hand, has secured 25-year PSAs.

Presented below is a summary of the PSAs of the power plants.

Power Plant/Asset	Off-taker	Location	Contracted Capacity	No. of Years	Start Date	End Date
<b>MPC</b>	Cagayan Electric Power and Light Company (CEPALCO)	Cagayan De Oro	30	10 years	June 24, 2016	June 23, 2026
<b>WMPC</b>	Zamboanga City Electric Cooperative Inc. (ZAMCELCO)	Zamboanga	50	10 years	December 13, 2015	December 12, 2025
	Cagayan Electric Power and Light Company (CEPALCO)*	Cagayan	1	10 years	December 13, 2015	December 12, 2025
	National Grid Corporation of the Philippines (NGCP) – Ancillary Services	GRID	50	5 years	April 26, 2019	April 25, 2024

	Procurement Agreement (ASPA)					
<b>SEC 1</b>	South Cotabato Electric Cooperative II (SOCOTECO 2)	General Santos	70	25	April 29, 2016	April 28, 2041
	Agusan del Norte Electric Cooperative (ANECO)	Agusan del Norte	10	25	April 29, 2016	April 28, 2041
	Agusan del Sur Electric Cooperative (ASELCO)	Agusan del Sur	10	25	April 29, 2016	April 28, 2041
	Davao Del Norte Electric Cooperative, Inc. (DANECO)	Davao del Norte	15	25	October 10, 2019	October 9, 2044
<b>SEC 2</b>	Cagayan Electric Power and Light Company, Inc. (CEPALCO)	Cagayan De Oro	20	25	October 10, 2019	October 9, 2044
	Cotabato Electric Cooperative Inc (COTELCO)	Cotabato City	10	25	October 10, 2019	October 9, 2044
	Davao del Sur Electric Cooperative (DASURECO)	Davao del Sur	15	25	October 10, 2019	October 9, 2044
	Iligan Light and Power Inc. (ILPI)	Iligan City	15	25	April 29, 2016	April 28, 2041
	South Cotabato I Electric Cooperative (SOCOTECO I)	South Cotabato	10	25	October 10, 2019	October 9, 2044
	Zamboanga del Sur I Electric Cooperative Inc (ZAMSURECO I)	Zamboanga del Sur	5	25	October 10, 2019	October 9, 2044
	Zamboanga del Norte Electric Cooperative Inc. (ZANECO)	Zamboanga del Norte	5	25	October 10, 2019	October 9, 2044
<b>SRPI</b>	Zamboanga City Electric Cooperative Inc. (ZAMCELCO)	Zamboanga City	85	25	n/a	n/a

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Alto Power Management Corp. (APMC), a subsidiary of ACR, provides the plant and operation management services to SPPC, WMPC and MPC. Also, APMC International Ltd., a wholly owned subsidiary of APMC, provided operations and maintenance management services to PT Makassar Power Indonesia until April 2016.

The Property Development and other businesses of ACR are not dependent on a single or few customers and the loss of one or a few customers will have no material adverse effect on the Company and its subsidiaries.

## Marketing Process

ACR follows the marketing process for its prospective customers

1. ACR gathers customer data which include demand, supply, load profile, forecasts, suppliers, rates.
2. ACR simulates the technical and commercial/rate impacts of the coming in of its supply. If deemed acceptable, ACR proceeds to the next step.
3. ACR offers supply with the proposed tariff to management and Board of Directors
4. Series of negotiations and meetings with customer/s is conducted
5. ACR undergoes a Competitive Selection Process (CSP)
6. Contract is awarded to the winning bidder.

## Location of the Power Plants

ACR's power plants are strategically located to cater to the power requirements of its key areas in Mindanao.

The first three power plants of ACR, namely WMPC, SPPC and MPC, are strategically located to serve key load centers in Mindanao and provide adequate generation where it is needed most. The long-term Energy Conversion Agreements of these plants assured ACR of a steady revenue stream. Today, ACR continues to operate power plants through bilateral contracts with various distribution utilities.

Mindful of the need to strategically position the baseload plants in key load centers and also recognizing the inherent advantage of expanding in areas where we are already present, the Company decided to establish the Sarangani 210MW Coal-Fired Power Plant of Sarangani Energy Corporation in Maasim, Sarangani and the Zamboanga 105MW Coal-Fired Power Plant of San Ramon Power Incorporated in Zamboanga City. These coal-fired power plants are equipped with the latest state of the art thermal power generation technology.



Beyond the baseload expansion of ACR, the Company is looking towards the future and investing in renewable energy projects. ACR has identified hydropower resources in Mindanao and Negros Occidental that can be implemented under the Renewable Energy Act.

## Properties

The Company's energy and power operations are located in four different sites. WMPC's own power plant is on a 9-hectare property in Sitio Malasugat, Sangali, Zamboanga City. SPPC's operations are conducted on a 16-hectare property located in Alabel, Sarangani Province, and 13 kilometers east of the city proper of General Santos. CHC's Plants 1 and 2, which are operated by MPC, are in an 8-hectare property in the Municipality of Lugait, Misamis Oriental, and in the City of Iligan. WMPC and SPPC fully own their respective properties. The power plants in Lugait, Misamis Oriental and City of Iligan were acquired by virtue of a Deed of Sale between the City of Iligan and CHC dated February 27, 2013. The lots on which the power plants of CHC are located were acquired by MPC from Alsons Development and Investment Corporation by virtue of the deed of sales dated November 21, 2013. Sarangani Energy Corporation is located in the Municipality of Maasim, Sarangani Province. The real estate assets of KAIEDC are located in Maasim Sarangani Province.

The power assets were used as collateral in various loans, specifically: (1) CHC power plant and the real estate owned by MPC, were used as collateral for loans for the rehabilitation of the MPC power plants; and (2) Sarangani Energy's real estate and coal-fired power plants are mortgaged to its various lender banks.

ALC, the Company's property development company, has properties in the Province of Batangas, in the Municipality of Cabuyao in the Province of Laguna, and along Chino Roces Avenue (formerly Pasong Tamo Extension), Makati City. Its Batangas property currently has residential developments.

The Company maintains its corporate headquarters at the Alsons Building, Makati City, which is owned by ALC.

All of these properties are in good condition.

### Property, Plant and Equipment (Consolidated)

(Amounts in Thousand Pesos)	December 31, 2019	December 31, 2018	December 31, 2017
Main Engine of Power Plant	P 30,678,044	P19,183,589	P19,173,982
Plant Mechanical, Switchyard and Desulfurization Equipment	7,239,101	4,649,048	4,647,085
Land, Buildings and Leasehold Improvements	574,049	554,953	552,089
Machinery and Other equipment	1,398,804	915,938	726,586
Construction in Progress	810,204	12,425,399	7,425,077
Right of Use	35,274	-	-
Total	40,735,476	37,728,927	35,524,819
Less: Accumulated Depreciation and Amortization	11,638,510	10,591,286	9,795,112
Net Book Value	29,096,966	27,137,641	22,729,707

### Lease Commitments

On December 1, 2011, the Group entered into a 5 year lease agreement with Alphaland Development Inc. commencing on February 1, 2012 up to January 31, 2017 for office space. Upon expiration, the lease was renewed for another five years.

Set out below, are the amounts recognized in the Company's consolidated statements of income:

	2019	2018	2017
Depreciation expense of right-of-use assets	<b>P11,440,263</b>	P-	P-
Interest expense on lease liability	<b>2,418,712</b>	-	-
Included under "General and administrative expenses" (Note 23):			
Rent expense - short-term leases	<b>1,877,508</b>	-	-
Rent expense - PAS 17	-	3,382,420	5,169,041
	<b>P15,736,483</b>	<b>P3,382,420</b>	<b>P5,169,041</b>

Total cash outflow for leases amounted to P15 million in 2019. Recoverable deposits related to the lease agreement amounted to P4.16 million and P3.95 million as of December 31, 2019 and 2018, respectively.

### Future Plans to Acquire Properties

KAIEDC is finalizing the purchase of 36.7 hectares of raw land in Maasim, Sarangani Province. The total purchase price, around PHP 200M, shall be financed from internally generated funds.



ALC intends to purchase a commercial lot inside Azuela Cove. The acquisition cost around PHP151M, shall be funded through a combination of proceeds from pre-selling and bank **loan**.

## **Investment Acquisition**

On October 9, 2015, the Board of Directors approved the subscription to Non-Voting Preferred Shares in ALDEVINCO amounting to P2.2 billion. The preferred shares are entitled to receive out of the unrestricted retained earnings of the ALDEVINCO, cumulative dividends at the rate of 4% per annum of the par value of the Preferred Shares, before any dividends shall be paid to holders of the Common Shares. In 2018, ALDEVINCO declared dividends amounting to P264 million covering the years 2016 to 2018.

On August 27, 2019, the Board of Indophil Resources Phils, Inc. (IRPI) approved the equity call to all existing shareholders amounting to P52.50 per share. On September 30, 2019, ACR participated and paid IRPI P2,977,452 for the additional 56,715 common shares.

## **Research and Development**

ACR and its subsidiaries do not allocate specific amounts or a fixed percentage for research and development. All research, if any, are done by its subsidiaries and affiliates on a per project basis. The allocation for such activities may vary depending on the nature of the project.

## **Employees**

As of December 31, 2019, ACR and its 50% or more directly or indirectly-owned subsidiaries had a manpower complement of 481 employees, broken down as follows: 15 executives, 20 managers, 120 supervisors and 326 associates. The Company believes that changes in manpower complement will be minimal for the next twelve months. The employees of the Company and its subsidiaries are not unionized. None of the employees are on strike, or have been in the past three (3) years, or are threatening to strike.

## **Future Plans**

The second phase of 105MW of the 210 MW Sarangani Energy power plant has started commercial operations on October 10, 2019. The President of the Philippines personally inaugurated the plant and also attended the launching of the Siguil Hydro Power Corporation's 14.5 MW project. This hydro project is the beginning of ACR's venture into renewable energy projects.

On top of the hydroelectric power plant, the Company is considering putting up a solar farm as well. This solar plant would have a maximum capacity of 50 MW, and is estimated to cost around \$1.2M per MW.

The Company is also looking to expand operations in Indonesia, particularly in Sulawesi province, because of its proximity to Mindanao, but the plans are still in very early stages.

## **Competition**

A shift in the market forces has prompted a slowdown in sales for the Eagle Ridge Estates. Economic and affordable housing developments of Filinvest, Camella Homes, and Amaia have gained a foothold in the region.

While several power generation companies have either commenced construction of coal-fired power stations or announced plans to build them, Sarangani Energy has secured its position in the market by entering into Power Sales Agreements (PSAs) with various distribution utilities. Having secured the approval of the Energy Regulatory Commission of these PSAs, Sarangani Energy is assured of the market for its capacity.

The diesel power plants of WMPC and MPC are moderately contracted. These plants offer distribution utilities ideal peaking and insurance capacities due to their competitive pricing and proven performance over years of reliable operations. SPPC, on the other hand, has no current PSA, but the Company is exploring opportunities for relocating its engines to other locations. MPC is likewise considering relocating its available unutilized engines to other locations.

#### List of other Merchant plants

Merchant plants	Capacity (MW)		Owner
	Installed	Dependable	
Therma South, Inc. 1	150	130.0	Aboitiz Power Corporation
Therma South, Inc. II	150	130.0	Aboitiz Power Corporation
Therma Marine, Inc. I	100.3	96.0	Aboitiz Power Corporation
Therma Marine, Inc. II	100.3	96.0	Aboitiz Power Corporation
FDC Misamis Power Corporation (unit 1 & 2)	270	240	FDC Utilities

Company	Description
Aboitiz Power Corporation	<ul style="list-style-type: none"> <li>- Provides hydroelectric power generation</li> <li>- Market cap: 211.928 billion</li> <li>- Therma South, Inc. (TSI), a wholly-owned subsidiary of AboitizPower, is the project company of the 300-MW Circulating Fluidized Bed (CFB) coal-fired plant in Toril, Davao City and Sta. Cruz, Davao del Sur. It supplies reliable baseload power to more than 20 electric cooperatives and distribution utilities all over Mindanao</li> </ul>
FDC Utilities	<ul style="list-style-type: none"> <li>- A subsidiary of the Filinvest Development Corporation (FDC)</li> <li>- Offers utility services and focuses on power generation and potential water distribution projects.</li> <li>- Developed the FDC Misamis 3 x 135 MW Circulating Fluidized Bed (CFB) Coal Thermal Plant located in PHIVIDE Industrial Estate, Villanueva, Misamis</li> </ul>

	Oriental. The power plant has a combined capacity of 405 MW
SMC Global Power Holdings Corp.	<ul style="list-style-type: none"> <li>- A power generation company and provides a diversified portfolio utilizing a mix of coal, natural gas, and hydroelectric power plants</li> <li>- Total capacity is 2,903 MW representing 22% of the Luzon grid and 17% of the National grid.</li> </ul>

## Competitive Strengths

The key strengths of ACR as compared to competitors are the following:

1. In-depth knowledge of the Mindanao Region
2. Experienced Management Team
3. Expertise in power plant development and operation
4. Enhanced competitiveness and sustainable growth
5. Focused Strategies

### *1. In-depth knowledge of the Mindanao region*

The Alcantara group has been operating in Mindanao for over 60 years engaging in forestry and wood processing, property development, power generation, cement, product distribution, agriculture, aquaculture, insurance, utilities. ACR benefits from this extensive business network by being able to build established relationships and acquire in-depth local knowledge of its operating environment and principal shareholders.

### *2. Experienced Management Team*

One of the strengths of the Company is its seasoned management team. The management team has relevant and extensive experience in the operation and management of power assets both here and abroad. They have deep understanding of the power industry and an extensive experience in the development and operation of greenfield power projects. Through their extensive experience, they have demonstrated successes in raising and negotiating financing for the power projects, and negotiating construction, supply and the offtake agreements. They have also established strong relationships with various stakeholders.

## Key Executives

Key Executives	Profiles
<b>Tomas I. Alcantara</b> Chairman and President	<ul style="list-style-type: none"> <li>* Holds various managing and operating position in the Alcantara group</li> <li>* Former Undersecretary of Department of Trade and Industry</li> <li>* Former Managing Head of the Board of Investments</li> <li>* Former President of the Manila Economic &amp; Cultural Office</li> <li>* MBA from Columbia University</li> </ul>

	<ul style="list-style-type: none"> <li>* Attended Advanced Management Program at Harvard Business School</li> </ul>
<b>Editha I. Alcantara</b> Director and Treasurer	<ul style="list-style-type: none"> <li>* Holds various positions or directorships in Alcantara Group, Philippine Business for the Environment, Miriam College, and Philippine Wood Producers Association</li> <li>* MBA from Boston College</li> </ul>
<b>Tirso Santillan, Jr.</b> Executive Vice President	<ul style="list-style-type: none"> <li>* Over 20 years of experience in the power industry and has been with ACR since 1995</li> <li>* Overall head for the power division and overseas existing projects and new investments</li> <li>* Previously worked with the First Pacific Group and with Clark Development Corp.</li> <li>* Bachelor of Arts degree in Engineering and Masters in Business Management from Ateneo de Manila University</li> </ul>





### Key Executives in Power Division

Key Executives in power division	Profiles
<b>Joseph C. Nocos</b> Vice President Project Development Head Power Sales and Marketing Head	<ul style="list-style-type: none"> <li>* Over 24 years of experience in the power industry and has been with ACR since 1992</li> <li>* Head of development for all of ACR's power plants in Mindanao and abroad, and markets power to offtakers and evaluates new investments.</li> <li>* Bachelor of Arts degree in Economics from Ateneo de Manila University.</li> </ul>
<b>Edgardo D. Seviles</b> Vice President for Diesel Operations	<ul style="list-style-type: none"> <li>* Over 37 years of experience in the power industry and has been with ACR since 1993</li> <li>* Head of ACR's diesel power projects and manages operations of existing plants</li> <li>* Part of the team for project development and due diligence of diesel power plants</li> <li>* Also served as Head of Power Barge Fleet in NPC for 19 years</li> <li>* Masters in Management from Asian Institute of Management and Registered Electrical Engineer</li> </ul>

### 3. Expertise in power plant development and operation

ACR has been in the power generation business for more than 23 years, and has demonstrated success in developing, financing and operating power projects both here and abroad. ACR has also established knowledge of the market and strong longstanding relationships with power customers.

### Power Plant Development & Operation

 <p>MAPALAD POWER CORPORATION</p>	<p>*From 1992 to 2006, developed and operated the 103MW diesel power plant (then named NMPC) in Iligan City under a BOT arrangement with NPC</p> <p>* Since 2013, reacquired from the Iligan City government and has successfully rehabilitated and restored the diesel power plant to full operation</p>
 <p>Western Mindanao Power Corporation</p>	<p>* Since 1997, has been operating the 100MW diesel-fired plant in Zamboanga City under a BOO arrangement with NPC</p> <p>* Has historically exceeded the required level of availability as set under the ECA contract of 85%</p>
 <p>Southern Philippines Power Corporation</p>	<p>* Since 1998, has been operating the 55MW diesel-fired plant in Sarangani Province under a BOO arrangement with NPC</p> <p>* Has historically exceeded the required level of availability as set under the ECA contract of 85%</p>
 <p>ALTO Power Management Corporation</p>	<p>*APMC has also provided management or consultancy services to power plants in Vietnam, Pakistan and Indonesia</p>

#### Sarangani Energy Corporation

- Project Overview
  - The Sarangani Project is a two-phased coal power project with total rated net capacity of 211.5MW
  - The project is located at the 58-hectare Kamanga Agro-Industrial Economic Zone in Maasim, Sarangani
  - Notice to Proceed (NTP) for Sarangani Phase 1 was issued in January 2013 and COD was achieved in April 29, 2016
  - Limited Notice To Proceed (LNTP) for Sarangani Phase 2 was issued in July 2016 and construction is expected to be completed by 2019
  - Sarangani is 75% owned by ATEC and 25% owned by TTC
- Technical Overview

PARAMETERS	DETAILS
Gross Capacity	Sarangani Phase 1: 118.5MW Sarangani Phase 2: 118.5MW
Net Capacity	Sarangani Phase 1: 106.8MW Sarangani Phase 2: 106.5MW
Net plant heat rate	Sarangani Phase 1: 10,663.5 kJ/kwh Sarangani Phase 2: 10,435.0 kJ/kwh
Average Availability	88.1%
Coal Storage Capacity	60 days (covered / open)

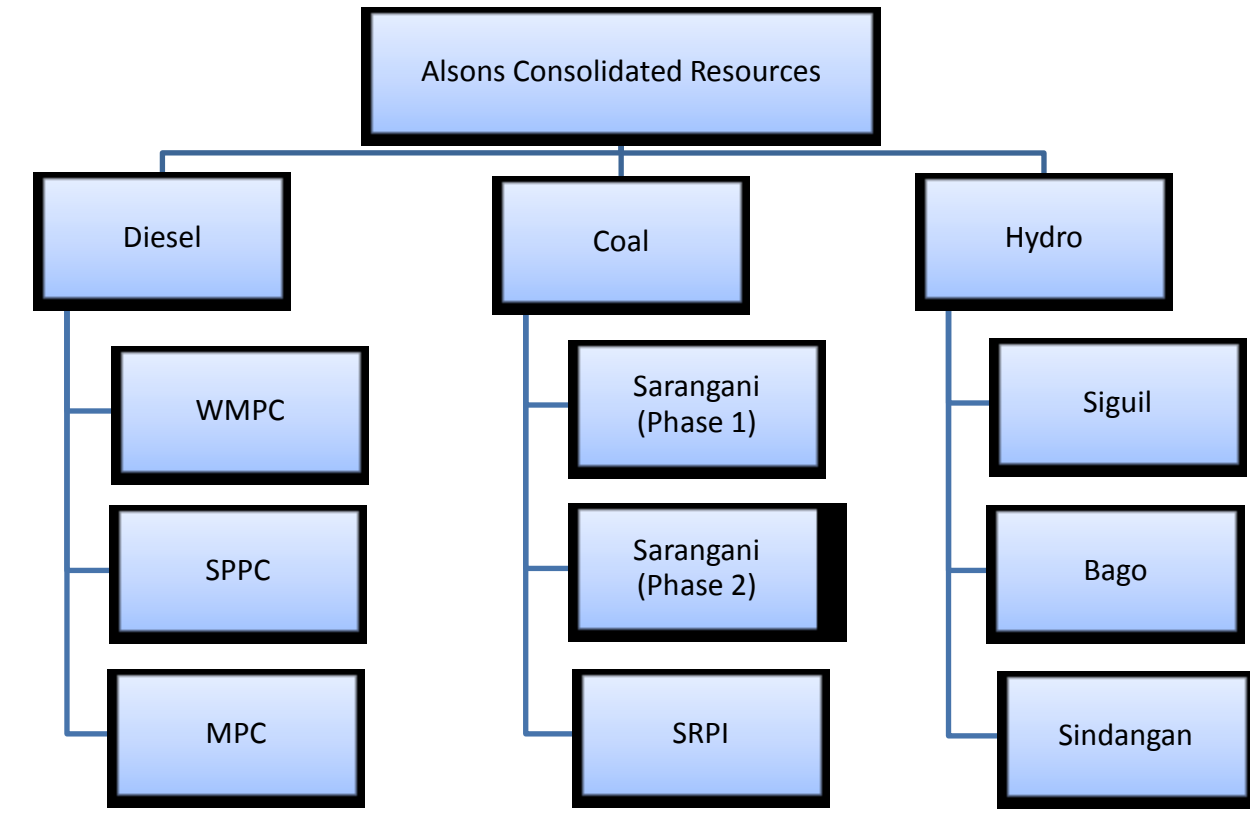
ACR's new power projects are grounded on:

- Committed project sponsors and partners – similar to its existing power plants, ACR and TTC will expand their partnership to the new coal-fired plants
- Project contracts (EPC contract, the Fuel Supply and Transportation Agreement, and the Operation & Maintenance Agreement) that have been crafted in accordance with international project finance standards
- Strong project management support from ÅF Consult, a Finnish engineering company with vast experience in thermal power construction and operation
- Power Supply Agreements mitigating offtake risks
  - Sarangani Phase 1 has PSAs covering 100% of capacity for a tenor of 25 years
  - Sarangani Phase 2 has PSAs covering 76% of capacity for a tenor of 25 years
  - SRPI has signed a 25-year PSA with Zamboanga City Electric Cooperative, Inc. (ZAMCELCO) for 80% of its capacity
- Experienced Operation & Maintenance (O&M) Firm
  - The Sarangani and SRPI plants' O&M will be supervised by PIC Marubeni

#### *4. Enhanced competitiveness and sustainable growth*

ACR's expansion to a balanced generation mix will allow it to:

- Provide a complete power solution to Mindanao grid
- Mitigate fuel-type specific risks such as volatilities in fuel costs and regulatory concerns linked to certain fuel types
- Enhance competitiveness of ACR in the Mindanao Electricity Market
- Diversify revenue and cash flow source



### 5. Focused Strategies

ACR's expansion strategy is driven by the needs of the Mindanao Grid and is supported by long-term offtake agreements.

- 1990s: Intermediate, peaking, and back up
- 2000s: Baseload
- Future: Renewables

ACR will position the diesel plants to perform roles that are not effectively and efficiently served by coal fired power plants.

- Intermediate and peaking capacity
- Back up capacity
- Ancillary service

ACR to develop its pipeline of hydro power projects to round up its generation mix with renewable sources

ACR's expansion will:

- Allow it to provide a complete power solution to the Mindanao grid

- Mitigate fuel-type specific risks such as volatilities in fuel costs and regulatory concerns linked to certain fuel types
- Enhance competitiveness of ACR in the Mindanao Electricity Market
- Diversify revenue and cash flow source.

## **Business Strategy**

- ACR aims to maximize returns from its existing portfolio of oil-fired assets and to capitalize on underserved and growing baseload demand through the development of advanced coal-fired power stations. Management views that growth will be driven according to the needs in relation to the Mindanao grid.
- ACR's existing plants play an important role in the Mindanao grid due to their strategic location, wherein there is great demand for electricity. ACR likewise has the operating versatility in meeting baseload and peak demand requirements in Mindanao.
- ACR highlights that its Bunker C – fired diesel plants will be essential in carrying out ACR's business strategies. It will perform/cover tasks that will not be served by its coal-fired plants. These diesel capacities will be sold to cover intermediate and peaking supply, as well as provision of back-up power and ancillary services.

## **Plans and Programs**

ACR has four (4) operating power plants in Mindanao. Majority of its power plants are Bunker C –fired diesel and coal fuel types, with a total power capacity of about 468 MW in operation. Around 105 MW are still under construction and development. ACR expects its power capacities to further expand once all of its projects are completed,

While other power generation companies have recently entered Mindanao, ACR believes that its reliable and efficient service would be its primary strength to secure long-term PSAs. Sarangani Phase I which commenced commercial operation only last April 29, 2016, has already contracted its full capacity under long-term PSAs. A coal-fired power plant, Sarangani Phase I, already has PSAs for a tenor of 25 years with South Cotabato II Electric Cooperative, Inc. to supply its 70 MW requirement, Agusan del Norte Electric Cooperative, Inc. for 10 MW, Agusan del Sur Electric Cooperative, Inc. with 10 MW and Davao del Norte Electric Cooperative, Inc. with 15 MW.

For Sarangani Phase II, it already has established PSAs for 76% of its capacity for a tenor of 25 years with the following: Iligan Light and Power Inc., Cagayan Electric Power and Light Company, Inc., Davao Del Sur Electric Cooperative Inc, South Cotabato I Electric Cooperative, Zamboanga del Sur I Electric Cooperative, Inc., and Zamboanga del Norte Electric Cooperative, Inc.

San Ramon Power Inc., ACR's third coal fired power plant will be located on a leased site in Zambo Ecozone. This plant is intended to serve the Zamboanga region. SRPI is expected to be in operation by 2019 but has already contracted and signed a 25-year PSA with ZAMCELCO for 80% of its capacity.



ACR has plans of investing in renewable energy. The Group has identified hydropower resources in Mindanao and Visayas that may be implemented under the Renewable Energy Act. Apart from hydro-powered projects, the group is also looking into solar-power projects in Mindanao and is also planning to participate in the retail electricity supply business.

ACR's plan is to reach a level of balanced generation mix where it can serve the complete power requirements of its customers (i.e. baseload, intermediate, peaking, back-up as well as ancillary). Apart from enhancing its market position, this strategy, will in turn diversify its revenue mix, as well as minimize potential risks that may arise.

## **Dividends**

Declaration of dividends is subject to approval by the Board of Directors.

Dividends on preferred shares amounting to P4 million in 2019, 2018 and 2017 were applied against the Company's subscriptions receivable from Alsons Corporation.

Management continuously endeavors to increase ACR's share value through new projects and expansion programs while at the same time provide yearly dividends to its shareholders. On June 8, 2011, the Board of Directors adopted a dividend policy of annually declaring dividends from 20% of the previous year's un-appropriated retained earnings..

### **Historical Dividend Declarations**

Year	Date of Declaration	Per Share	Amount	Date of Payment
2019	May 30, 2019	0.036	230,894,000	July 25, 2019
2018	May 24, 2018	0.036	230,894,000	July 25, 2018
2017	May 25, 2016	0.016	100,664,000	July 25, 2017

Dividend Policy:

Management continuously endeavors to increase ACR's share value through new projects and expansion programs while at the same time provide yearly dividends to its shareholders. On June 8, 2011, the Board of Directors adopted a dividend policy of annually declaring dividends from 20% of the previous year's unappropriated retained earnings.

Lack of unappropriated retained earnings, due to certain situations such as, but not limited to, allocation of funds for capital expenditures or expansion plans, would limit the ability of the company to pay dividends in the future.

## **Government Approvals and Permits**

### **Effects of Existing or Probable Government Regulations on the Company's Business**

Republic Act No. 9136, the EPIRA of 2001, and the covering Implementing Rules and Regulations provide for the significant changes in the power sector which include among others:

- i. The unbundling of the generation, transmission, distribution and supply and other disposable assets, including its contracts with IPP and electricity rates;
- ii. Creation of a Wholesale Electricity Spot Market within one year; and
- iii. Open and non-discriminatory access to transmission and distribution systems.

The law also requires public listing of not less than 15% of common shares of generation and distribution companies within 5 years from the effectivity of the EPIRA. It provides cross ownership restrictions between transmission and generation companies and between transmission and distribution companies, and a cap of 50% of its demand that a distribution utility is allowed to source from an associated company engaged in generation except for contracts entered into prior to the effectivity of EPIRA.

There are also certain sections of the EPIRA, specifically relating to generation companies, which provide for a cap on the concentration of ownership to only 30% of the installed capacity of the grid and/or 25% of the national installed generating capacity. Based on the assessment of management, the operating subsidiaries have complied, with the applicable provisions of the EPIRA and its IRR.

The second package of the tax reform program or the Corporate Income Tax and Incentives Rationalization Act (CITIRA), which is still subject to approvals, aims to rationalize the incentives system, with the hope that foreign investments will match or even surpass the incentives given, allowing net positive benefits to our country. Thus, additional requirements are proposed before a registered entity can avail certain tax incentives. such as the value-added tax (VAT) incentives on importation and domestic purchases.

The CITIRA proposes to grant VAT exemption on importation and VAT zero-rating on domestic purchases of capital equipment and raw materials used in the manufacturing and processing of products and importation of source documents of registered enterprises whose export sales meet the required threshold and are located within the ecozone, freeport, or utilizing customs bonded manufacturing warehouse.

If a registered enterprise's export sales are below the required threshold but is located within an ecozone, freeport, or is utilizing customs bonded manufacturing warehouse, the CITIRA likewise grants VAT exemption on importation and VAT zero-rating on domestic purchases of capital equipment and raw materials used in the manufacturing and processing of products to issue and transmit electronic receipts or sales or commercial invoices through designated electronic channels with a public certification system accredited by the Bureau of Internal Revenue. CITIRA will also reduce corporate income tax rate to 20 percent by 2029, from 30 percent at present. Based on management assessment, the reduction of income tax rates will provide positive impact to existing businesses and attract foreign investors to Kamanga Agro-Industrial Ecozone.

### **Cost and Effect of Compliance with Environmental Laws**

ACR engages only in projects and activities that comply with environmental laws. Its power subsidiaries follow the regulations embodied in the EPIRA. All its plants meet the exhaust emission standards set by Department of Environment and Natural Resources (DENR). Compliance with existing environmental laws has corresponding costs, which include expenditures for the following:

- a. renewal fees for the DENR permit/license to operate;
- b. exhaust emission tests and monitoring (costs covered by the environmental guarantee fund);
- c. environmental monitoring fund (SPPC P500,000 and WMPC P598,000); and,
- d. environmental guaranty fund (SPPC P500,000 and WMPC P508,000).

The Company meets all governmental, environmental, health and safety requirements. The Company's operating units are regularly inspected and have not experienced significant governmental, environment, health or safety problems. For the past three years, the total amounts spent in complying with environmental laws by the subsidiaries are as follows (1) P2,022,841 in 2019; (2) P2,593,707 in 2018; and, (3) P2,940,145 in 2017

## **Legal Proceedings**

Southern Philippines Power Corporation ("SPPC"), a subsidiary of the Company, and owner of a diesel-fired power plant, has a receivable from the National Power Corporation ("NPC"), which NPC disputed. The parties brought their dispute to the Energy Regulatory Commission ("ERC") for arbitration. On June 3, 2013, the ERC decided in favor of SPPC, and NPC appealed the ERC decision to the Court of Appeals ("CA"), which affirmed the ERC decision. On August 17, 2015, the CA denied NPC's motion for reconsideration. On September 18, 2015, NPC petitioned the Supreme Court ("SC") to review the ERC and CA decisions. On July 16, 2016, the SC rendered a decision holding NPC liable to pay SPPC for the capacity and other fees arising from the additional 5 MW nominated by SPPC from 2005 to 2010. On November 23, 2016, the SC denied NPC's motion for reconsideration, rendering the ERC decision final. SPPC is now preparing to petition the Commission on Audit ("COA") to approve its money claim. Some of the subsidiaries or affiliates of the Company are also from time to time involved in routine litigation as well as various legal actions incidental to their respective operations. However, in the opinion of the Company's management, none of these legal matters, in which its subsidiaries or affiliates are involved, will be material to the Company's financial condition and results of operations.

Some of the subsidiaries or affiliates of the Company are also from time to time involved in routine litigation as well as various legal actions incidental to their respective operations. However, in the opinion of the Company's management, none of these legal matters, in which its subsidiaries or affiliates are involved, will be material to the Company's financial condition and results of operations.

## **Bankruptcy Proceedings**

The Company has not contemplated any plan for bankruptcy, receivership, or similar proceedings. Neither is there any material reclassification, merger, consolidation, nor sale of any significant amount of assets in the ordinary course of business.

## **Market Information**

All the common shares of the company are listed in the Philippine Stock Exchange.

The following are the high and low market prices of the Company's shares for the past three years:

## Market Price of ACR Shares

Year		First Quarter	Second Quarter	Third Quarter	Fourth Quarter
2020	High	1.37			
	Low	1.16			
2019	High	P1.58	P1.48	P1.42	P1.34
	Low	1.28	1.36	1.29	1.21
2018	High	1.38	1.35	1.30	1.31
	Low	1.23	1.18	1.14	1.22
2017	High	1.59	1.94	1.48	1.43
	Low	1.23	1.35	1.35	1.34

The price of the Corporation's common shares as of June 08, 2020 trading date was PhP0.93 per share.

## Stockholders

As of April 30, 2020 ACR has 6,291,500,000 shares outstanding held by 453 stockholders, inclusive of the two accounts under PCD Nominee Corporation. The top twenty (20) stockholders of the Company, as recorded by Prime Stock Transfer Services, Inc., the Company's stock transfer agent, are as follows:

### Top Twenty (20) Stockholders

<u>Name</u>	<u>No. of Shares Held</u>	<u>% to Total*</u>
ALSONS CORPORATION	2,592,524,072	41.21%
ALSONS POWER HOLDINGS CORP	1,249,999,599	19.87%
ALSONS DEVELOPMENT AND INVESTMENT CORPORATION	1,188,524,026	18.89%
PCD NOMINEE CORPORATION (FILIPINO)	1,146,851,476	18.22%
PCD NOMINEE CORPORATION (NON-FILIPINO)	76,498,001	1.22%
SEC ACCOUNT NO. 2 FAO: VARIOUS CUSTOMERS OF GUOCO	2,090,000	0.03%
ALL ASIA CAPITAL TRUST & INVESTMENT DIVISION A/C#95-001	1,830,000	0.03%
EBC SECURITIES CORPORATION	1,030,000	0.02%
CRISOSTOMO, EMILY A.	1,000,000	0.02%
CRUZ JR., FELIPE A	1,000,000	0.02%
GO, NORA T.	1,000,000	0.02%
FIRST INTEGRATED CAPITAL SECURITIES, INC. (555300)	900,000	0.01%
FIRST INTEGRATED CAPITAL SECURITIES, INC. (555200)	795,000	0.01%
ANSALDO, GODINEZ & CO., INC.	755,000	0.01%
GO, GEORGE	750,010	0.01%
AACTC FAO TRINITY INVESTMENT	680,000	0.01%
YAU, ESTEBAN	600,000	0.01%
TIA, ROY C	513,000	0.01%
S.J. ROXAS & COMPANY, INC.	507,000	0.01%
CO, ANTONIO	500,000	0.01%
MENDOZA, MARITES &/OR ALBERTO MENDOZA	500,000	0.01%
ROQUEZA, RICARDO S.	500,000	0.01%
SAN JOSE, ROBERTO	500,000	0.01%
VEGA, LUIS V. &/OR ELISEO C. OCAMPO JR.	500,000	0.01%
MENDOZA, ALBERT G. &/OR JEANNIE C. MENDOZA	450,000	0.01%
<b>Total shares of top 20</b>	<b>6,276,824,758</b>	<b>99.76%</b>

\*percentages were rounded off.

### Submission of Matters to a Vote of Security Holders

During the calendar year covered by this report, no business matter was submitted to a vote of security holders through solicitation of proxies or otherwise other than an election of the Directors.

## Directors and Senior Management

### The Board of Directors

The Company's Board of Directors is responsible for the overall management and direction of the Company. The Board meets regularly or as often as required, to review and monitor the Company's financial position and operations. Each Board member serves for a term of one year or until his successor is duly elected and qualified.

The following are the Directors and Officers of the Company and their business experience for the last five years.

#### Board of Directors

Office	Name	Nationality
Director, President, Chairman of the Board	Tomas I. Alcantara	Filipino
Director and Treasurer	Editha I. Alcantara	Filipino
Director, Executive Vice President and Chief Operating Officer	Tirso G. Santillan, Jr.	Filipino
Director	Alejandro I. Alcantara	Filipino
Director	Ramon T. Diokno	Filipino
Director	Conrado C. Alcantara	Filipino
Independent Director	Jacinto C. Gavino, Jr.	Filipino
Independent Director	Jose Ben R. Laraya	Filipino
Director	Honorio A. Poblador III	Filipino
Director	Arturo B. Diago, Jr.	Filipino
Independent Director	Thomas G. Aquino	Filipino

**Tomas I. Alcantara**, 73, Filipino, became the Chairman of the Board of Directors and the President of the Company in August 2001. He holds a Bachelor of Science degree in Economics from the Ateneo de Manila University and a Masters in Business Administration (MBA) from Columbia University, and he attended the Advanced Management Program of the Harvard Business School. He is presently the Chairman of the Board of Directors and President of Alsons Development and Investment Corporation and Sarangani Agricultural Company, Inc., and other companies in the Alcantara Group (since August 2001).

Mr. Alcantara is also the Chairman of the Alsons Aidx Information Systems, Inc. (since August 2001). He is a Trustee of the European IT Service Center Foundation (since August 2002) and of the Foundation for Revenue Enhancement (August 2004). He has been a Director of Holcim Philippines, Inc. since July 2003, Philweb Corporation (May 2002) and DBP-Daiwa Capital Markets Phils., Inc. (July 1995).

Mr. Alcantara served as Undersecretary for the Industry and Investment Group of the Department of Trade and Industry, the Vice Chairman and Managing Head of the Board of Investments from July 1986 to March 1995, and the Special Envoy of the Philippine President to Asia Pacific Economic Cooperation forum in 1996. He was also the Chairman of the Board of Directors and the President of Holcim Manufacturing Corporation (formerly Alsons Cement Corporation) from May 1997 to July 2003 and has served as a Director of that company since 1997. He was a Member of the Advisory Board of Rizal

Commercial Banking Corporation (RCBC) from April 1997 to June 2007. Mr. Alcantara served as a Director of Philippine Reclamation Authority (formerly Public Estate Authority) from 2003 to April 2006 and Chairman of the Manila Economic and Cultural Office from March 2001 to August 2010.

**Editha I. Alcantara**, 71, Filipino, has served as a Director of the Company since March 8, 1995. She holds a Business Administration degree from Maryknoll College and an MBA from Boston College. Ms. Alcantara became the President of C. Alcantara and Sons, Inc. in 1992 after serving as the Treasurer of that company. Presently, she is a Director (since 1980) and the Treasurer (since October 2000) of other companies in the Alcantara Group.

She is also a Director of the Philippine Wood Producers Association (since May 16, 1980), and has served as a Trustee for the Philippine Business for the Environment, Inc. since July 1995 and as a Trustee of Miriam College since December 1998.

**Tirso G. Santillan Jr.**, 76, Filipino, became a Director of the Company in June 11, 1996. He has also been the Executive Vice-President since April 27, 1995. He holds a Bachelor of Arts degree in Engineering and a Masters in Business Management degree from the Ateneo de Manila University.

Presently, he heads the Power Business Unit of the Alcantara Group. He has been the Executive Vice-President of Alto Power Management Corporation since January 1996, Conal Holdings Corporation since June 1997, Southern Philippines Power Corporation and Western Mindanao Power Corporation since March 1996. He is also a Director of Sarangani Agricultural Co., Inc. since May 2002.

Additionally, he has been the Managing Partner of Private Capital of Asia Ltd. Since June 1991. Mr. Santillan worked with the First Pacific Group from February 1987 to May 1991.

**Alejandro I. Alcantara**, 65, Filipino, has served as a Director of the Company since July 2003. He graduated from the Ateneo de Davao with a degree in Economics. Mr. Alcantara has been a Director and the President of Aquasur Resources Corporation since 1993 and has served in the same capacity with Finfish Hatcheries, Inc. since 1995. He has also served as the Executive Vice President and General Manager of Sarangani Agricultural Company, Inc. since 1986 and of Alsons Aquaculture Corporation since 1998. He also became a Director and the Treasurer of the Federation of Cattle Raisers Association of the Philippines from 1997 to December 2009.

**Ramon T. Diokno**, 72, Filipino, rejoined the Company as a Director in March 18, 2009. Previously, he served the Company as a Director from June 19, 2002 to June 29, 2006 and as its Chief Financial Officer from January 16, 2001 to June 30, 2006. He holds an Economics and Accountancy degree from the De La Salle University and a Masters of Science in Management degree from the Massachusetts Institute of Technology.

Mr. Diokno is also the Chief Financial Officer of Lepanto Consolidated Mining Co and its wholly-owned subsidiaries. He is currently also a Director of Alsons Insurance Brokers Corporation.

**Conrado C. Alcantara**, 47, Filipino, has served as Director of the Company since November 2010. He graduated from the Boston University with a degree in Political Science and attended a Post Baccalaureate Program in Management at Harvard University. He presently serves as a Director and President of Infinicor, Inc. He also became a Director of C. Alcantara and Sons, Inc. in July 2006 and of Alsons Land Corporation in July 2009.

**Jacinto C. Gavino, Jr.**, 67, Filipino, has served as Independent Director of the Company since May 2005. He has been a full-time Faculty of the Asian Institute of Management (AIM) since 1990 and he presently holds the Fr. James F. Donelan, SJ, Professional Chair Business Ethics. He is on the core faculty of the Washington SyCip Graduate School of Business (WSGSB). He was also the Associate Dean of the Master in Management Program from 1993 to 1995, and Associate Dean for Research from 1995 to 1999.

He is currently a Director of Productronica Holdings, Inc. (2003), Aurotech Corporation (2000), Green Chemicals Corporation (2006), RNuable Energy Corporation (2011) and Sarangani Agricultural Co., Inc. (2005). He also serves as a Trustee of Fundacion Santiago (2002) and the Center for Family Ministries at the Loyola School of Theology (2006). He also does consultancy work for various businesses and non-profit organizations.

Professor Gavino holds a Bachelor of Science degree in Electrical Engineering from the University of the Philippines (1971), a Master in Business Administration degree from the Ateneo de Manila University (1984), and a Doctorate in Public Administration from the University of the Philippines (1993). He also taught in the Ateneo de Manila University, Maryknoll College, and the University of the Philippines.

**Jose Ben R. Laraya**, 80, Filipino, has served as Independent Director of the Company since March 1995. He holds a Commerce degree from De La Salle College and an MBA from the University of the Philippines. He also attended the Advanced Management Program at Harvard Business School. Currently, he serves as Chairman of the Board of Directors of Ultrex Management and Investments Corporation (1992) and Laraya Holdings, Inc. (2007). He also serves as President of Trully Natural Food Corporation (2004), and a Director of La Frutera, Inc. (1997).

Previously, he served as Vice-Chairman of the Philcom Corporation from October 1996 to February 1999, President of National Steel Corporation from September 1980 to February 1989, Dole Asia from February 1989 to June 1992, and APC Group, Inc. from September 1995 to February 1999.

**Honorio A. Poblador III**, 74, Filipino, has served as a Director of the Company since March 8, 1995. He holds a Political Science degree from the Ateneo de Manila University. Currently, he serves as Chairman of the Board of Directors of Asuncion Realty Corporation (since 1995), Chairman of the Board of Directors and President of Asmaco, Inc. and President of Asian Aesthetic Excellence, Inc. and Mayriad Human Resources and Services, Inc.

He is also a Director of Philippine Communications Satellite Corporation, Philippine Overseas Telecommunications Corporation, and Elnor Investment Corp. (since 1983), Philcomsat Holdings Corporation (1998), the Philodrill Corporation (1997), F&C Realty Corporation and POB Corporation (2003).

**Arturo B. Diago, Jr.** 68, Filipino, became a director of the Company in August 2017 after the resignation of Mr. Nicasio I. Alcantara in July 2017. Mr. Diago has been the Treasurer of Cyan Management Corporation since 1988, Teleperformance, Inc. since 1996, Lacturan Holdings, Inc. since 1997, Mantrade Development Corporation since 2003 and Canlubang Golf Corporation since 2007. Mr. Diago has been the Vice-President-Comptroller of MG Exeo Network, Inc. since 1991. He has been an Executive Vice President and Treasurer of Directories Philippines Corporation since 1989. He served as the Chief Officer for Administrative and Corporate Service of Pilipino Telephone Corporation until December 31, 2000. Mr. Diago served as the President of Lodestar Investment Holdings Corp. since May 2006. He held



various positions in the Alcantara Group of Companies involved in manufacturing, marketing and shipping operations. He has been the Vice Chairman of Asian Media Development Group, Inc. since 2003. Mr. Diago serves as a Director of Directories Philippines Corporation and MG Exeo Network Inc., among other corporations. He has been a Director of Alsons Consolidated Resources, Inc. since August 24, 2017. He serves as a Director of Cebuana Lhuillier Bank, Cybersoft Information Technology, Inc., 911 Alarm, Inc. and Vinnell Belvoir Corp. He served as a Director of Lodestar Investment Holdings Corp. from March 10, 2006 to December 2007 and its Globalport 900, Inc. (a/k/a MIC Holdings Corp.). Mr. Diago served as a Director of PLDT Communications and Energy Ventures, Inc. (Former Name: Pilipino Telephone Corporation) from April 24, 1991 to May 9, 2011. He obtained his Master's Degree in Business Management from the Asian Institute of Management and his Bachelor of Science Degree in Commerce from the De La Salle University. He also attended the Strategic Business Economics Program of the Center for Research and Communication (now University of Asia and the Pacific).

**Dr. Thomas G. Aquino**, 71, Filipino, became an Independent Director of the Company in May 20, 2011. He is a Senior Fellow at the Center for Research and Communication of the University of Asia and the Pacific (UA&P). He was formerly the Senior Undersecretary of Philippine Department of Trade and Industry. He supervised the country's foreign trade promotions, trade negotiations under World Trade Organization and the ASEAN Free Trade Agreements as well as bilateral trade talks with the country's major economic trading nations. He served as overall lead negotiator for the country's first free trade agreement, namely the Philippine-Japan Economic Partnership Agreement and was country representative to the High Level Task Force on ASEAN Economic Integration. For public service, Dr. Aquino was conferred the Presidential Service Award (or Lingkod Bayan) for extraordinary contribution of national impact on public interest, security and patrimony and was recipient of the Gawad Mabini Award with the rank of Grand Cross (or Dakilang Kamanong) for distinguished service to the country both at home and abroad by the President of the Republic of the Philippines.

Before entering public service, Dr. Aquino held important roles in the fields of economics and business in the private sector as Vice President for Business Economics and Director of the Strategic Business Economics Program of UA&P. He returned to private practice as strategy consultant to companies and economic policy adviser to government entities. He is the Chairman of NOW Corporation and Independent Director of A Brown Company, both publicly listed at the Philippine Stock Exchange. He obtained his Doctorate in Management from IESE Business School, University of Navarre (Spain) in 1980, an MS in Industrial Economics from presently the University of Asia and the Pacific in 1972 and an AB in Economics from the School of Economics, University of the Philippines in 1970.

### **The Executive Officers**

The following Company Executive Officers do not own more than 2% of ACR:

<b>Office</b>	<b>Name</b>	<b>Nationality</b>
Director, President, Chairman of the Board	Tomas I. Alcantara	Filipino
Director and Treasurer	Editha I. Alcantara	Filipino
Director, Executive Vice President, Chief Operating Officer	Tirso G. Santillan, Jr.	Filipino
Corporate Secretary	Roberto V. San Jose	Filipino
Assistant Corporate Secretary	Angel M. Esguerra III	Filipino

**Roberto V. San Jose**, 78, Filipino, has been the Corporate Secretary of the Company since June 1991. He received his Bachelor of Arts degree from De La Salle University and his law degree from the University of the Philippines. He is a member of the Philippine Bar and a Consultant of the Castillo Laman Tan Pantaleon and San Jose Law Offices. In addition to serving as Corporate Secretary for the Company, he serves as Director, Officer, and/or Corporate Secretary of the Anglo Philippine Holdings Corp., CP Equities Corporation, Atlas Resources Management Group, MAA Consultants, Inc. and several other companies. He is also the Corporate Secretary of Premiere Horizon Alliance Corporation, Marc Ventures Holdings, Inc., Solid Group Inc., United Paragon Mining Corporation, FMF Development Corporation, Beneficial Life Insurance Co., Inc., The Metropolitan Club, Inc., and other client corporations of the Castillo Laman Tan Pantaleon and San Jose law firm.

**Angel M. Esguerra III**, 58, Filipino, was appointed as the Assistant Corporate Secretary of the Company on August 10, 2010. He is a member of the Philippine bar and obtained his Bachelor of Arts degree in Economics and his Law degree from the University of the Philippines. Mr. Esguerra practiced with several firms then joined a trans-national energy company with power plants in the Asia-Pacific Region as internal counsel, and served as the Corporate Secretary of its Philippine subsidiaries such as Batangas Power Corp. and Subic Power Corporation. In June of 2010, he joined the Alcantara Group as head of its Legal Services department and now serves as the Corporate Secretary of the group's other companies.

#### **Independent Directors**

The following are the Company's Independent Directors. They are neither officers nor substantial shareholders of ACR:

1. Jacinto C. Gavino, Jr.
2. Jose Ben R. Laraya
3. Thomas G. Aquino

#### **Significant Employee**

There are no persons other than the Executive Officers that are expected by the Company to make a significant contribution to the business.

#### **Family Relationships**

Mr. Tomas I. Alcantara, Mr. Alejandro I. Alcantara, and Ms. Editha I. Alcantara are siblings, while Mr. Conrado C. Alcantara is their nephew. There are no other family relationships known to the Company up to the 4th civil degree.

#### **Compensation of directors and executive officers**

A Director's compensation consists of a per diem of P30,000 for every meeting of the Board of Directors' and P15,000 for every meeting of the Executive Committee and Corporate Governance Committee and the Audit Committee.

The aggregate amounts paid by the Company to its Directors and Executive Officers as a group were P2,985,000 and P5,256,000 for the years 2019 and 2018, and P3,705,000 in 2017, respectively. For 2020,

the Company estimates that it will pay an aggregate amount of P4,257,000 as compensation to its Directors and Executive Officers.

**Summary of Compensation of Directors and Executive Officers**

<b>Name and Principal Position</b>	<b>Year (With 2020 Estimates)</b>	<b>Salary (Php)</b>	<b>Bonus (Php)</b>	<b>Other Annual Compensation Income (php)</b>
Tomas I. Alcantara Chairman and President	2020	-	-	P 330,000
	2019	-	-	165,000
	2018	-	-	434,000
	2017	-	-	330,000
Editha I. Alcantara Director and Treasurer	2020	-	-	405,000
	2019	-	-	285,000
	2018	-	-	509,000
	2017	-	-	0,000
Tirso G. Santillan, Jr. Director, EVP and COO	2020	-	-	405,000
	2019	-	-	315,000
	2018	-	-	509,000
	2017	-	-	330,000
Jose Ben R. Laraya Director	2020	-	-	405,000
	2019	-	-	330,000
	2018	-	-	509,000
	2017	-	-	330,000
Ramon T. Diokno Director	2020	-	-	375,000
	2019	-	-	255,000
	2018	-	-	464,000
	2017	-	-	330,000
All other Officers and Directors as a group unnamed	2020	-	-	2,355,000
	2019	-	-	1,635,000
	2018	-	-	2,831,000
	2017	-	-	1,500,000

Annual Compensation received from ACR consists of per diems given for every attendance in meeting of the Board, Executive Committee, or Audit Committee.

The Company and the Executive Officers are not involved in any of the following transactions:

1. Standard arrangement and any material arrangements;
2. Employment contract (between the registrant and named Executive Officers);
3. Compensatory plan or arrangement;
4. Outstanding warrants or options;
5. Adjustments or amendments on the stock warrants or options.

The members of the Compensation Committee of the Company are as follows:

1. Tomas I. Alcantara - Chairman
2. Honorio A. Poblador III - Member
3. Jose Ben R. Laraya - Member (Independent Director)
4. Tirso G. Santillan, Jr. - Member

**Warrants and Options Outstanding**

There are no warrants or options granted by the Company to any of its Directors or Executive Officers.

**Pending Legal Proceedings**

None of the directors and officers were involved in any bankruptcy proceedings as of April 30, 2020 and during the past five years. Neither have they been convicted by final judgment in any criminal proceedings or been subject to any order, judgment or decree of competent jurisdiction, permanently or temporarily enjoining, barring, suspending, or otherwise limiting their involvement in any type of business, securities, commodities or banking activities, nor found in action by any court of administrative bodies to have violated a securities or commodities law.

**Significant employees**

There are no persons other than the executive officers that are expected by the Company to make a significant contribution to the business.

**Voting Trust Holders of 5% or More**

No person holds five percent (5%) or more of the issued and outstanding shares of stocks of the Company under a voting trust or similar agreement.

**Change in Control**

There are no changes in controlling interest of the Company during the period covered by this report.

## Certain Relationships and Related Transactions

During the last three (3) years, the Company was not a party to any transaction in which a Director or Executive Officer of the Company, any nominee for election as a Director, or any security holder owning more than 5% of any class of the Company's issued and outstanding shares and/or his/her immediate family member, had a material interest thereon.

In the normal conduct of business, the following are some of the Company's transactions with its affiliates and related parties disclosed in the audited financial statements.

- I. On October 9, 2015, the Company subscribed to 22 million redeemable preferred shares of Aldevinco, a shareholder of the Company, through a conversion of the Company's advances to Aldevinco amounting to P2.2 billion. The redeemable preferred shares have a par value of P100 per share with cumulative dividend of 4% per annum and are non-participating. The Company accounts for its investment in these redeemable preferred shares as part of AFS investment in the Financial Statements.
- II. On March 21, 2013, Aldevinco and ACIL (collectively referred to as AG) and Ayala Land, Inc. (ALI) entered into a joint venture agreement, wherein ALI would own 60% and AG would own 40% of the outstanding capital stock of a Joint Venture Corporation (JVC), Aviana Development Corporation (ADC), which shall develop the Lanang Landholdings in Davao. On September 17, 2013, ADC was incorporated, and ACR subscribed to, and now owns, 34% of ADC's outstanding capital stock.

There were no transactions to which the Company was a party during the past two (2) fiscal years where a Director, Executive Officer, nominee for Director, or stockholder owning more than 10% of the outstanding shares of the Company had a direct interest.

The Company retains the law firm of Castillo Laman Pantaleon and San Jose for legal services, where Atty. Roberto V. San Jose is a Consultant. In 2019 and 2018, ACR paid this law firm fees of P360,000.00 and P5,135,548.08, respectively. Included in the amount paid in 2018 is the P4,722,338.88 which pertain to legal advice and services on the partial divestment of Alsons Thermal Energy Corporation in 2017. The Company believes that the legal fees are reasonable for the services rendered.

With the Company's issuance of the voting preferred shares, the Company's ultimate parent company is Alsons Corporation or AC, which owns 68.63% of all the common and the preferred shares. The Company's outstanding common shares, which are all listed in the Philippine Stock Exchange, are owned and controlled by the following Companies: Alsons Corporation – 41.21%; Alsons Power Holdings Corporation – 19.87%; and Alsons Development and Investment Corporation – 18.89%.

## Security Ownership of Certain Record and Beneficial Owners

As of June 04, 2020, the Company knows of no one who beneficially owns in excess of 5% of its common stock except as set forth below:

### Beneficial Owners of Voting Securities

Title of Class	Name and address of Record Owner	Relationship with Issuer	Name of Beneficial Owner and Relationship with record owner	Citizenship	Number of shares held	%age
Common	Alsons Corporation <sup>6</sup> Alsons Building, 2286 Pasong Tamo Ext., Makati City	Affiliate	AC <sup>7</sup>	Filipino	2,592,524,072	41.21%
Common	Alsons Power Holdings Corp. <sup>10</sup> Alsons Bldg., 2286 Pasong Tamo Ext., Makati City	Affiliate	APHC <sup>11</sup>	Filipino	1,249,999,599	19.87%
Common	Alsons Development and Investment Corp <sup>10</sup> Alsons Bldg., 2286 Pasong Tamo Ext., Makati City	Affiliate	ADIC <sup>11</sup>	Filipino	1,188,524,026	18.89%
Common	PCD Nominee Corporation <sup>8</sup> (Fil) 37/F Tower 1 Enterprise Center 6766 Ayala Avenue, Makati City	None	Various <sup>9</sup>	Filipino	1,146,851,476	18.23%

<sup>6</sup> The President and CEO of the Corporation, Tomas I. Alcantara, is the Chairman of the Board of Directors of the Company.

<sup>7</sup> The respective Board of Directors of each AC, APHC and ALDEVINCO has power to decide how the shares are to be voted..

<sup>8</sup> The PCD Nominee Corporation is not related to the Company

<sup>9</sup> There are no holders of more than 5% of common stock under PCD. The clients of the various PCD participants have the power to decide how the Company's shares are to be voted.

## Security Ownership of Management

The table below shows the securities beneficially owned by all Directors, nominees, and Executive Officers of ACR as of June, 4 2020.

## Security Ownership of Management

Title of Class	Name of Beneficial Owner	Amount and Nature of Beneficial Ownership	Citizenship	Percent of Ownership
<b>Directors</b>				
Common	Tomas I. Alcantara	1 (d)	Filipino	0.00%
Common	Editha I. Alcantara	100,000 (d)	Filipino	0.00%
Common	Alejandro I. Alcantara	1 (d)	Filipino	0.00%
Common	Jacinto C. Gavino, Jr.	1 (d)	Filipino	0.00%
Common	Ramon T. Diokno	1 (d)	Filipino	0.00%
Common	Jose Ben R. Laraya	100 (d)	Filipino	0.00%
Common	Conrado C. Alcantara	1 (d)	Filipino	0.00%
Common	Honorio A. Poblador III	100 (d)	Filipino	0.00%
Common	Arturo B. Diago, Jr.	1 (d)	Filipino	0.00%
Common	Thomas G. Aquino	100 (d)	Filipino	0.00%
Common	Tirso G. Santillan, Jr.	1 (d)	Filipino	0.00%
<b>Total</b>		<b>100,406 (d)</b>		
<b>Officers:</b>				
Common	Tomas I. Alcantara	1	Filipino	-
Common	Editha I. Alcantara	100,000	Filipino	-
Common	Tirso G. Santillan, Jr.	1	Filipino	-
Common	Roberto V. San Jose	500,000	Filipino	0.00%
	Angel M. Esguerra III	-	Filipino	-
<b>Total</b>		<b>600,002</b>		

## Sales of Unregistered Securities within the last three (3) years

There are no other securities sold for cash by the Company within the last three (3) years that were not registered under the Securities Regulation Code.

## **Corporate Governance**

In compliance with the SEC directive and in view of the ASEAN Corporate Governance Scorecard Assessment, the Company filed its the latest Integrated Annual Corporate Governance Report for 2018 on May 30, 2019. This is compiled and published in the Company website, in compliance with the SEC Memoranda No. 1 and 12, Series of 2014, requiring all publicly listed companies to consolidate all the ACGR updates and changes for the year and label the consolidated changes as “Consolidated Changes in ACGR for (year)”.

### **Evaluation System**

In compliance with Securities & Exchange Commission (“SEC”) Memorandum Circular No 19, Series of 2016, the Company timely and duly adopted a New Manual on Corporate Governance on 24 August 2017. In this New Manual, the evaluation system established by the Company to measure or determine the level of compliance by the Board of Directors and top-level management with its New Manual consisted of: (1) the appointment of a competent compliance officer who monitors, reviews, evaluates and ensures the compliance by the Company, its officers and Directors with the relevant laws, the Code, rules and regulations and all governance issuances of regulatory agencies; (2) the appointment of a competent Chairman of the Board of Directors who makes sure that performance of the Board is evaluated at least once a year and discussed/ followed up on; (3) the constitution of the Executive Committee of the Board of Directors as concurrently the Corporate Governance Committee that (i) oversees the periodic performance evaluation of the Board, its committees, and Management, and conducts an annual self-evaluation of its performance; (ii) ensures that the results of the Board evaluation are shared, discussed, and that concrete action plans are developed and implemented to address the identified areas for improvement; and (iii) evaluates itself in carrying out its evaluation functions. These evaluations take place usually at the end of the year, just before the annual corporate governance that all Directors and Officers attend.

### **Measures Being Undertaken for Compliance**

The Company plans to fully comply with the adopted leading practices on good corporate governance by constantly reviewing such practices as reported in the relevant media, portrayed in the appropriate websites, and revealed in various conferences and seminars regarding such practices. In addition, the Company’s external auditor regularly briefs the Board regarding up-to-date corporate governance practices in other situations, and suggests the adoption of such practices when relevant for the Company.

### **Deviations**

To date, the Company knows of no material deviation from the Company’s New Manual of Corporate Governance.

### **Future Plans for Improvement**

To improve the corporate governance of the Company, it plans to fully adopt another New Manual on



Corporate Governance pursuant to the SEC's Memorandum Circular No 24, series of 2019, which will require the Company to (1) appoint a competent compliance officer who will monitor, review, evaluate, and ensure that the compliance by the Company, its officers and Directors with the relevant laws, the Code, rules and regulations and all governance issuances of regulatory agencies; (2) appoint a competent Chairman of the Board of Directors who will make sure that performance of the Board is evaluated at least once a year and discussed/followed up on; (3) constitute the Executive Committee of the Board of Directors as concurrently the Corporate Governance Committee that (i) oversees the periodic performance evaluation of the Board, its committees, and Management, and conducts an annual self-evaluation of its performance; (ii) ensures that the results of the Board evaluation are shared, discussed, and that concrete action plans are developed and implemented to address the identified areas for improvement; and (iii) evaluates itself in carrying out its evaluation functions. These evaluations will take place at the end of the year, just before the annual corporate governance that all Directors and Officers attend, and at such other dates at the discretion of the Board of Directors .

## MANAGEMENT'S DISCUSSION & ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATION

*The following management's discussion and analysis of the Company's financial condition and results of operations should be read in conjunction with the Company's audited consolidated financial statements for the fiscal years ended 2019, 2018 and 2017 including the related notes, contained in this Prospectus. This Prospectus contains forward-looking statements that are based largely on the Company's current expectations and projections about future events and trends affecting its business and operations. The Company cautions investors that its business and financial performance is subject to substantive risks and uncertainties. The Company's actual results may differ materially from those discussed in the forward-looking statements as a result of various factors, including, without limitation, those set out in "Risk Factors." In evaluating the Company's business, investors should carefully consider all of the information contained in "Risk Factors."*

### Review of Current Year –2019 vs. 2018 Operations

Highlights of the Company's financial performance are as follows:

#### Revenues and Profitability

ACR and Subsidiaries posted a slight increase in its consolidated revenues during the year at P6,796 million, a 2% improvement from the P6,666 million reported in the previous year. This improvement was due mainly to SEC 2's commercial operations which started on October 10, 2019. It generated 186,609 megawatts of power during the year.

Cost of services decreased by 9% at P4,237 million from P4,673 million in 2018. The decrease was due mainly to the lower cost of fuel, lower energy dispatched by the diesel plants and the delay in SEC 2's commercial operations.

General and administrative expenses increased by 23% at P598 million from P487 million in 2018. The increase was due mainly to the expenses recognized by SEC 2 s well as those of Siguil Hydro Power Corporation which began construction in the 3rd quarter of 2019 and expected commercial operations by the first half of 2022. Operating profit also improved by 31% at P1,959 million from P1,499 million reported in the previous year.

Earnings before interest, taxes, depreciation and amortization (EBITDA) improved from P2,698 million to 3,081 million this year. The EBITDA margin is higher at 45% this year versus the 40% earned in 2018. The improvements were due mainly to the revenue contribution of SEC 2 and the better performance of WMPC.

Meanwhile, finance charges decreased by 9% from P1,186 million to P1,084 million. The partial prepayment by ACR Parent debt in April 2018 amounting to P1billion and amortization of SEC 1 project loans, caused the decrease in interest expense. The interest incurred for SEC 2 was capitalized as part of project cost up to the time it declared commercial operations.

The Company realized Other Income of P164 million from P390 million in 2018. The Company recognized a dividend from its investment in preferred shares amounting to P264 million in 2018 which

is partly offset by higher equity in net earnings from an associate of P71 million in 2019, from P33 million last year. The issuer of the preferred shares did not declare dividend this year. However, the feature of this preferred shares is cumulative and therefore the Company will recognize the dividend in arrears when declaration is made in the future.

As a result of the foregoing, the consolidated net income posted a better performance of P974 million in 2019, 73% better than the P563 million in 2018. The income attributable to Parent is 58% better from last year's P94 million to P148 million this year and posting an earnings per share of P0.023 from P0.014 last year.

## Financial Position

As of December 31, 2019, total resources of ACR and Subsidiaries remained strong at P45,609 million, increased by 5% versus the P43,492 million level reported in 2018.

Current assets posted a 0.7% decrease, from P8,904 million to P8,840 million. The decrease came largely from the use of cash and cash equivalents for the construction and completion of SEC 2. Siguil Hydro Power Plant likewise began construction during the year. Noncurrent assets rose by 6%, mostly on the capital expenditures incurred for the completion of the construction of SEC 2 and Siguil.

Current liabilities increased significantly by 92% from P6,280 million to P12,051 million, largely on account of higher current portion of long-term debt. The first tranche of Company's Fixed Rate Corporate Note (FXCN) which will mature in December 2020 has been recognized as current during the year. The Company is currently working on refinancing this maturing obligation. Noncurrent liabilities, on the other hand, decreased by 18% due to the reclassification of above maturing obligation and partly offset by the recognition of additional decommissioning liability related to SEC 2.

ACR posted a current ratio of 0.73:1 for 2019 as compared to 1.42:1 in 2018 mainly due to the reclassification of its maturing obligation. The Company is already in discussion with the existing lenders for the refinancing and majority has obtained management clearance to refinance the same.

Net cash inflows from operating activities remain stable and continue to be the source of payment of maturing obligations and trade payables. Net cash used for investing activities decreased from P5,310 million to P3,083 million this year due mainly to the completion of SEC 2. Net cash inflows from financing activities amounted to -P33 million in 2019, largely coming from loan availments of P5,324. These were used mainly for debt servicing and dividend payments. The net cash balance after accounting for the above changes reached P2,815 million, 19% lower than the P3,474 million in the previous year.

## Key Performance Indicators (KPI)

The following key performance indicators were identified by the Company and included in the discussion of the results of operations and financial condition. The Company's operations for the year ended December 31, 2018 showed stable gross income at P2,559 million compared to last year's P1,993 million. KPI of the Company are as follows: (Amounts in million pesos, except ratios).

Financial KPI	Calendar Year	
	2019	2018

<b>Profitability</b>		
Revenues	P6,796	P6,666
EBITDA	3,081	2,698
EBITDA Margin	45%	40%
Return on Equity	7%	4%
Net Earnings Attributable to Equity Holders	148	94
<b>Efficiency</b>		
Operating Expense Ratio	29%	32%
<b>Liquidity</b>		
Net Debt Coverage	11%	13%
Current Ratio	0.73 : 1	1.42 : 1
Debt-to-Equity Ratio	2.82 : 1	2.62 : 1

### Profitability

The earnings before interest, taxes, depreciation and amortization (EBITDA) of the Company increased from P2,695 million to P3,152 million in 2019 due mainly to the improved performances of SEC and WMPC. EBITDA Margin was also up from 40% in the previous year to 45% this year as a result of higher income.

Return on equity (ROE) was also up from last year's 4% to 8% this year while the net income attributable to the equity holders of the parent increased significantly to P148 million from last year's P94 million. The second section of SEC started commercial operations on October 10, 2019 contributing P1,046 million in total revenues during the year.

### Efficiency

The Company's operating expense ratio decreased to 29% in 2019 from 32% in 2018. The continued operating performance of the Company's operations led to the decrease in operating expense ratio.

### Liquidity

As a result of additional project loan drawdown for the completion of Sarangani Energy section 2 during the year, financial debt increased by 8%. Consequently, net debt coverage ratio decreased to 11% from last year's 13%. Current ratio on the other hand decreased to 0.73:1 from last year's 1.42:1. The first tranche of Company's Five-Year Fixed Rate Corporate Note (FXCN) which matures on December 2020 has been recognized as current during the year. The Company is currently working on the refinancing of this maturing obligation and majority of the noteholders have signified their concurrence.

### Material Changes in Consolidated Balance Sheet Accounts by 5% or More

1. Cash and cash equivalents, 19% Decrease and Short-term investments, 31% decrease

The decrease in cash and cash equivalents (2019: P2,815 million vs. 2018: P3,475 million) was due to the usage of cash for the completion of the SEC 2 power plant as well as the on-going construction of Sigul

Hydro Power Plant. SEC 2 has started commercial operations on October 10 while Siguil is expected to be completed to commence commercial operations in 2022.

2. Trade and other receivables, 22% Increase

The increase was due to the timing of collection of trade receivables during the year.

3. Spare parts and supplies, 6% decrease

The decline was due mainly to the lower coal consumption of Sarangani Energy Corporation during the year.

4. Prepaid expenses and other current assets, 12% Increase

The increase was due to the higher interest reserve account of Sarangani Energy Corporation required for its loan facility used for the construction of SEC 2.

5. Advances to Constructors, 306% Increase

The increase was due to the additional advances made during the year for our first renewable energy project that began construction in 2019 and target completion in 2022.

6. Property, plant and equipment, 7% Increase

The increase is due mainly to expenditures incurred for the completion of SEC 2 power plant.

7. Contract Asset, 5% Increase

The Contract asset represents asset recognized through the application of PFRS 15. This Accounting Standards simply recognizes the revenues of SEC relative to its Capital Recovery Fee equally over the life of its PSA. Thus, applying the average method in calculating the CRF Revenue. The increment is presented as Contract Asset.

8. Deferred Financing Cost, 100% Decrease

The decrease was due to reclassification of SEC 2 financing costs into property plant and equipment account.

9. Deferred Tax Assets, 75% Increase

The increase is due largely to the deferred tax impact of the additional recognized contract assets.

10. Accounts payable and other current liabilities, 4% Decrease

The decrease was due mainly to the payment of dividend declared by Sarangani Energy in the previous year.

11. Loans payable and short-term notes payable, 285% Increase

The short-term notes payable represents negotiable commercial paper registered with the Securities and Exchange Commission of the Company, which security is listed in the Philippine Dealing System (PDEX). The increase was due mainly to the additional issuance during the year.

12. Income tax payable, 571% Increase

The increase was due to the higher taxable income earned during the year.

13. Current Portion of Long-term Debt, 397% Increase

Long-term debts – net of Current portion, 19% Decrease

The first tranche of Company's Five-Year Fixed Rate Corporate Note (FXCN) which matures on December 2020 has been recognized as current during the year. The Company is currently working on the refinancing of this maturing obligation and majority of the noteholders have signified their concurrence.

14. Deferred Tax Liabilities, 16% Decrease

The decline in deferred tax liabilities was due to the increase capitalized interest of the SEC 2 Power Plant which is under construction during the year.

## **Review of Year 2018 vs. 2017 Operations**

Highlights of the Company's financial performance are as follows:

### **Revenues and Profitability**

ACR and Subsidiaries posted a slight increase in its consolidated revenues during the year at P6,666 million, a 2% improvement from the P6,519 million reported in the previous year. This improvement was due mainly to Sarangani Energy Section 1 operations.

Cost of services also increased by 2% at P4,673 million from P4,574 million in 2016. The increase was due mainly to the higher energy dispatched of SEC 1 generating 521,304 megawatts of power from last years' 489,029 megawatts due to higher utilization this year.

General and administrative expenses decreased by 13% at P487 million from P562 million in 2017. The decline was due to one time expenses recognized by SEC 1 in 2017 for prior year's administrative charges. Operating profit also improved 9% at P1,499 million from P1,374 million reported in the previous year.

Earnings before interest, taxes, depreciation and amortization (EBITDA) improved from P2,363 million to P2,695 million this year. The EBITDA margin is higher at 40% this year versus the 36% earned in 2017. Meanwhile, finance charges slightly decreased by 1% from P1,200 million to P1,186 million. The partial pre-payment by ACR Parent debt in April 2018 amounting to P1billion, caused the slight decrease in interest expense . The interest incurred for SEC 2 was capitalized as part of project cost.

On the other hand, the Company realized another income of P326 million from P70 million in 2017. The Company recognized a dividend from its investment in preferred shares amounting to P264 million and equity in net earnings from an associate of P33 million during the year.

As a result of the foregoing, the consolidated net income jumped 444% from last year's P103 million to P563 million. The income attributable to Parent is turnaround from a loss of P21 million in the previous year to an income of P94 million this year and posting an earnings per share of P0.015 from (P0.004) last year.

### **Financial Position**

As of December 31, 2018, total resources of ACR and Subsidiaries remained strong at P43,492 million, increased by 14% versus the P38,237 million level reported in 2017.

Current assets posted a 4% decrease, from P9,257 million to P8,904 million. The decrease came largely from the use of cash and cash equivalents for the construcion of SEC 2 and partial prepayment of the the Company's Fixed Rate Corporate Note (FXCN). Noncurrent assets rose by 19%, mostly on the capital expenditures incurred for the completion of the second phase of Sarangani Energy's power plant and the contract asset resulting from the application of Philippine Financial Reporting Standards 15 wherein revenues of Sarangani Energy should be is recognized over time based on contract period (straight-line basis).

Current liabilities also increased by 12% from P5,590 million to P6,280 million, largely on account of higher accounts payable and accrued expenses. Noncurrent liabilities increase by 20%, due to the additional drawdown of project loan for the second phase of Sarangani Energy's power plant.

ACR's balance sheet remained strong with a current ratio at 1.42:1 in 2018 versus the 1.66:1 level in 2017, while its debt-to-equity ratio increased at 2.03:1 from 1.79:1, due to availment of additional debts for SEC 2 power plant.

Net cash inflows from operating activities remain stable and continue to be the source of payment of maturing obligations and trade payables. Net cash used for investing activities increased significantly from P1,050 million to P5,212 million this year due mainly to the construction of SEC 2. Together with net cash inflows from financing activities amounting to P1,738 million, largely from loan availments, available funds totaled P11,117 million in 2018, from which P5,534 were used for power plant project construction during the year. The net cash balance after accounting for the above changes reached P3,475 million, 21% lower than the P4,384 million in the previous year.

### Key Performance Indicators

The Company's operations for the year ended December 31, 2018 showed stable gross income at P1,498 million compared to last year's P3,74 million. KPI of the Company are as follows: (Amounts in million pesos, except ratios).

Financial KPI	Calendar Year	
	2018	2017
<b>Profitability</b>		
Revenues	P6,666	P6,519
EBITDA	2,695	2,325
EBITDA Margin	40%	36%
Return on Equity	4%	1%
Net Earnings Attributable to Equity Holders	94	-21
<b>Efficiency</b>		
Operating Expense Ratio	32%	41%
<b>Liquidity</b>		
Net Debt Coverage	13%	15%
Current Ratio	1.42 : 1	1.66 : 1
Debt-to-Equity Ratio	1.94 : 1	1.74 : 1

### Profitability

The earnings before interest, taxes, depreciation and amortization (EBITDA) of the Company increased from P2,325 million to P2,695 million in 2018 due mainly to higher utilization of SEC 1. EBITDA Margin was also up from 36% in the previous year to 40% this year as a result of higher income.

Return on equity (ROE) was also up from last year's 1% to 4% this year while the net income attributable to the equity holders of the parent was a turnaround at P94 million from a loss of P21 million in 2017. The loss in 2017 was attributable to the higher finance charges availed for the project loan of SEC 1 and



the lower performance of the diesel plants. The Company is currently exploring opportunities on how its diesel assets are best utilized.

### **Efficiency**

The Company's operating expense ratio decreased to 32% in 2018 from 41% in 2017. The last year's recognition of a non-recurring administrative cost resulted to a higher general and administrative expenses in 2017.

### **Liquidity**

As a result of additional project loan for the construction of Sarangani 2 during the year, financial debt increased by 18%. Consequently, net debt coverage decreased to 13% from last year's 15%. Current ratio on the other hand decreased to 1.42:1 from last year's 1.66:1 due largely to the higher accounts payable and accrued expenses in 2018.

### **Material Changes in Consolidated Balance Sheet Accounts by 5% or More**

1. Cash and cash equivalents, 21% Decrease

The decrease in cash and cash equivalents (2018: P3,474 million vs. 2017: P4,384 million) was due to the usage of cash for partial pre-payment of Parent Company's long-term debt in April 2018.

2. Trade and other receivables, 4% Increase

The increase was due to the timing of collection of trade receivables during the year.

3. Prepaid expenses and other current assets, 59% Increase

The increase was due to the higher interest reserve account of Sarangani Energy Corporataion required for its loan facility used for the construction of SEC 2.

4. Advances to Constructors, 100% Increase

The increase was advances for the upgrade of transmission Line for SEC 2. The advances will be applied against future future payments.

5. Property, plant and equipment, 19% Increase

The increase in is due mainly to expenditures incurred for the construction of SEC 2 power plant.

6. Equity instruments designated through fair value other than comprehensive income, 100% Increase

The increase is a change in classification from AFS financial assets in 2017 to the above account in compliance with Accounting Standards.

7. Contract Asset, 100% Increase

The Contract asset represents asset recognized through the application of PFRS 15. This Accounting Standards simply recognizes the revenues of SEC relative to its Capital Recovery Fee equally over the life of its PSA. Thus, applying the average method in calculating the CRF Revenue. The increment is presented as Contract Asset.

8. Deferred Tax Assets, 22% Increase

The increase is due largely to the deferred tax impact of the recognized contract assets.

9. Other Noncurrent Assets, 18% Increase.

The increase was due to the additional deferred project expenses recognized by SRPI and Siguil projects.

10. Accounts payable and other current liabilities, 25% Increase

The increase was due mainly to the unpaid dividend declared by Sarangani Energy in 2018 payable in 2019.

11. Loans payable, 64% Decrease

The decrease was due the settlements of short-term working capital facility of ACR Parent, SPPC and WMPC during the year.

12. Short-term Notes Payable , 100% Increase.

The short-term notes payable represents P 100 million negotiable commercial paper registered with the Securities and Exchange Commission of the Company, which security is listed in the Philippine Dealing System (PDEX). The first issuance is part of the first tranche of P 1.5 billion of commercial paper.

13. Income tax payable, 50% Decrease

The decrease was due to the lower taxable income earned during the year.

14. Current Portion of Long-term Debt, 34% Increase  
Long-term debt-net of Current Portion, 21% Increase

The increase in long-term debt was due to additional loan drawdown for the construction of SEC 2 Power Plant. While the maturing principal of the project loan availed for SEC 1 caused the 34% increase in current portion of long-term debt.

15. Deferred Tax Liabilities, 15% Increase

The incline in deferred tax liabilities was due to the increase capitalized interest of the SEC 2 Power Plant which is under construction during the year.

## **Review of Year 2017 vs. 2016 Operations**

### **Revenues and Profitability**

ACR and subsidiaries posted a decline in its consolidated revenues during the year at P6,518 million, an 8% down from the P7,107 million reported in the previous year. This decline was due mainly to the one time recognition of gain on loss and damages charged to the EPC contractor of Sarangani Phase 1 and the lower energy dispatch of the diesel plants brought about by the lower contracted capacity and energy sales.

Cost of services registered 2% decline at P4,574 million from P4,679 million in 2016. The decline was due mainly to the lower energy dispatched of the 3 diesel plants namely; SPPC, WMPC and MPC. The full operations of Sarangani Phase 1 posted an increase in cost of services from P1,934 million in 2016 to P2,904 million this year.

Due to the one-time gain recognized by Sarangani in 2016, the gross profit declined by 20% from P2,422 million in 2016 to P1,935 million this year. General and administrative expenses increased by 6% at P562 million in 2017 from P531 million in 2016. The increase is attributable to Sarangani Phase 1 expenses, which is now in full year commercial operations. Operating profit also declined 27% at P1,373 million from P1,892 million reported in the previous year.

Earnings before interest, taxes, depreciation and amortization (EBITDA) slightly decreased from P2,698 million to P2,327 million this year. The last year income includes one-time gain due to construction penalties charged to Sarangani Phase 1 EPC contractor. The EBITDA margin is slightly lower at 35% this year versus the 38% earned in 2016.

Meanwhile, the finance charges increased by 39% from P865 million to P1,200 million. The interest expense incurred on the project loan to complete the first phase of Sarangani is now fully recognized as an expense after the project was completed and commenced operations. Last year, the interest was capitalized until April 2016 as part of project cost.

On the other hand, the Company realized a net other income of P70 million from a net other charges of P155 million in 2016. The Company realized a gain when its investment in Duta, Inc. was divested this year. The net other charges in 2016 was due to the recognized impairment loss of P245 million on goodwill which was partly negated by the income from insurance claim of SPPC during that year amounting to P70 million.

As a result of the foregoing, the consolidated net income declined 84% from last year's P636 million to P103 million. The income attributable to Parent posted a loss of P21 million this year compared to the income of P317 million in 2016 posting an earnings per share of (P0.004) from P0.050 last year.

### **Financial Position**

As of December 31, 2017, total resources of ACR and subsidiaries remained strong at P38,237 million, increased by 24% versus the P30,810 million level reported in 2016.

Current assets increased 32% from P6,084 million to P9,257 million. The increase came largely from the cash and cash equivalents representing the proceeds of the partial divestment of investment in ATEC and a deposit in interest reserve account on the Fixed Rate Corporate Note (FXCN) of the Parent Company. Noncurrent assets also rose by 17% representing capital expenditures incurred for the construction of the second phase of Sarangani's power plant and the additional deferred project cost incurred for SRPI during the year.

Current liabilities also increased by 103% from P2,910 million to P5,590 million, largely on account of higher current portion of long-term debt and accounts payable and accrued expenses and half of the advances of related party advances of ATEC assigned to Global Business Power Corp. Noncurrent liabilities increased by 8% due to the additional drawdown of project loan for the second phase of Sarangani power plant.

ACR's balance sheet remained strong with a current ratio at 1.65: 1 in 2017 versus the 2.09: 1 level in 2016, while its debt-to-equity ratio increased at 2.21: 1 from 2.03: 1, due to avilment of additional debts.

Net cash inflows from operating activities remain stable at P2,348 million, 1.4% down from last year's P2,382 million. The additional payment of prepaid expenses resulted to the decline in cash from operations this year. Net cash used for investing activities was down by 63% from P2,809 million to P1,050 million this year due mainly to the collection of advances from related parties. Together with net cash inflows from financing activities amounting to P1,032 million, largely from loan availments, available funds totaled P1,972 million in 2017, from which P4,023 were used for power plant project construction during the year. The net cash balance after accounting for the above changes reached P4,384 million, 114% higher than the P2,051 million in the previous year.

#### Key Performance Indicators (KPI)

The Company's operations for the year ended December 31, 2017 showed stable gross income at P1,374 million compared to last year's P1,191 million excluding the one-time gain on recoveries of foregone revenue of P701 million. KPI of the Company are as follows: (Amounts in million pesos, except ratios)

Financial KPI	Calender Year	
	2017	2016
<b>Profitability</b>		
Revenues	P6,519	P7,107
EBITDA	2,327	2,698
EBITDA Margin	36%	38%
Return on Equity	1%	6%
Net Earnings Attributable to Equity Holders	-21	317
<b>Efficiency</b>		
Operating Expense Ratio	41%	28%
<b>Liquidity</b>		
Net Debt Coverage	10%	15%
Current Ratio	1.65 : 1	2.09 : 1
Debt-to-Equity Ratio	2.21 : 1	2.03 : 1

## **Material Changes in Consolidated Balance Sheet Accounts by 5% or More**

### **1. Cash and cash equivalents, 113% Increase**

The increase in cash and cash equivalents was principally due to the proceeds of the partial divestment of investment in ATEC which was sold to Global Business Power Corp. on November 27, 2017 and remain unused during the year.

### **2. Short-term cash investments, 347% Increase**

Short-term cash investments increased due to the additional placements made during the year.

### **3. Trade and other receivables, 20% Decrease**

The decrease was due to the collection of trade receivables during the year.

### **4. Spare parts and supplies, 5% Increase**

The build-up consisted mainly of the purchase coal and spare parts for Sarangani during the year.

### **5. Prepaid expenses and other current assets, 33% Increase**

The increase is due to the higher interest reserve account of the Parent as required by the Corporate Fixed Facility issued during the year as well as the project loan availed by Sarangani Energy Corporation for the construction of Sarangani Phase 2.

### **6. Property, plant and equipment, 22% Increase**

The growth is due mainly to expenditures incurred for the construction of the second phase of Sarangani's power plant.

### **7. Deferred Tax Assets, 17% Increase**

The increase is due largely to the deferred tax impact of the accrued decommissioning liability and impairment losses.

### **8. Other Noncurrent Assets, 13% Increase**

The increase was due to the additional deferred project expenses for SRPI and Siguil projects.

### **9. Accounts payable and other current liabilities, 137% Increase**

The increase was due mainly to the assignment of the 50% ATEC's to GBP amounting to P1.8 billion and accrued interest on loans during the year.

### **10. Loans payable, 46% Increase**

The increase was due to the availments of short-term working capital facility of SPPC and WMPC during the year.

11. Income tax payable, 67% Decrease

The decrease was due to the lower taxable income earned during the year.

12. Current Portion of Long-Term Debt, 47% Increase

Long-term debt net of Current Portion, 9% Increase

The increase in long-term debt was due to the additional loan drawn down for the construction of Sarangani Phase 2 power plant. While the maturing principal of the project loan availed for Sarangani Phase 1 caused the 47% increase in current portion of long-term debt.

13. Deferred Tax Liabilities, 6% Increase

The incline in deferred tax liabilities was due to the increase in capitalized interest of the Sarangani Phase 2 power plant which is under construction during the year.

**Other Required Disclosures**

There are no events that will trigger direct or contingent financial obligation that is material to the Company, including any default or acceleration of an obligation.

There are no material off-balance sheet transactions, arrangements, obligations (including contingent obligations), and other relationships of the Company with unsolicited entities or other persons created during the reporting period.

There are no material commitments for capital expenditures.

There are no known trends, events or uncertainties that have had or that are reasonably expected to have a material favorable or unfavorable impact on net sales or revenues or income from continuing operations.

There are no significant elements of income or loss that did not arise from the registrant's continuing operations.

There are no seasonal aspects that had a material effect on the financial condition or results of operations.

## External Audit and Fees

1. SyCip Gorres Velayo & Co. has been the Company's external auditor for the last three fiscal years. SGV has not expressed any intention to resign as the Company's principal public accountant nor has it indicated any hesitance to accept re-election after the completion of their last audit.
2. In compliance with SEC Memorandum Circular No. 8 Series of 2003 on rotation of External Auditors, SGV's previous engagement partner was replaced in 2014.
3. There has been no disagreement with SGV & Co. on accounting principles or practices, financial statements disclosures, auditing scope or procedures, which disagreements, if not resolved to their satisfaction, would have caused them to make reference thereto in its respective reports on the Company's financial statements for the abovementioned years.
4. The Company has maintained SGV as its principal public accountant to audit the financial statement for the last fiscal year. SGV has not expressed any intention to resign as the Company's principal public accountant nor has it indicated any hesitance to accept re-election after the completion of their last audit.

## Members of the Audit Committee

Listed below are the members and officers of the Company's Audit Committee:

### Company's Audit Committee

Office	Name
Chairman	Jose Ben R. Laraya
Member	Editha I. Alcantara
Member	Jacinto C. Gavino, Jr.
Member	Tirso G. Santillan, Jr.
Member	Ramon T. Diokno

## External Audit and Audit-Related Fees

Fees for the years ended December 31, 2019 and 2018 were P550,200 for each year. The above fees are for the audit of the Company's annual financial statements or services normally provided in connection with statutory and regulatory filings or engagements for 2019 and 2018. The fees and services were approved by the Audit, Risk Oversight, and Related Party Transaction Committee (Audit Committee) in compliance with the Code of Corporate Governance for Publicly Listed Companies.

The other fees billed by SGV pertain to an engagement of SGV in 2018 to conduct a tax seminar exclusively for the Group on the Tax Reform for Acceleration and Inclusion (TRAIN). For this separate engagement, SGV billed the Company P112,000 as professional fee, inclusive of any applicable taxes.

### **Brief Summary for the Approval of the Auditor's fees**

The Audit Committee pre-approves all audit plans, scope, and frequency before the conduct of its external audit. Moreover, pursuant to its mandate, it likewise performs interface functions with both internal and external auditors.

The External Auditor confers and discusses with the Internal Auditors of the Company the auditing process adopted and methodologies used in compliance with International Accounting Standards in the initial draft of the Financial Statements and Notes to the Financial Statements in compliance with its Internal Management handbook and such other statutory and regulatory requirements.

The External Auditor, likewise, prepares an accountability statement that sufficiently identifies the officers responsible for the financial report.

The final form of the Annual Financial Statements is then presented to the Company's Audit Committee members who can properly review and further examine and perform their oversight financial management functions in such areas relative to the Company's credit, market, liquidity, operational, legal and other risks as indicated in its financial reports. The approval of the External Auditor's fees is made by the Audit Committee in view of the complexity of the services rendered and reasonableness of the fee under the engagement provided in the audit of the Company's Annual Financial Statements.

### **Changes in and Disagreements with Accountant on Accounting and Financial Disclosure**

1. SGV has been the Company's external auditor for the last three fiscal years. SGV has not expressed any intention to resign as the Company's principal public accountant nor has it indicated any hesitance to accept re-election after the completion of their last audit.
2. In compliance with SEC Memorandum Circular No. 8 Series of 2003 on rotation of External Auditors, SGV's previous engagement partner was replaced in 2014.
3. There have been no disagreement with SGV & Co. on accounting principles or practices, financial statements disclosures, auditing scope or procedures, which disagreements, if not resolved to their satisfaction, would have caused them to make reference thereto in its respective reports on the Company's financial statements for the abovementioned years.



## **MATERIAL CONTRACTS & AGREEMENTS**

The Company's principal contracts generally consist of Memorandum of Agreements with Government agencies and different Corporations. The Company also has existing financing agreements. Save for the contracts mentioned below, the Company is not a party to any contract of material importance and outside the usual course of business, and the Directors do not know of any such contract involving the Company.

### **1. Energy Conversion Agreement (ECA)**

SPPC and WMPC, under separate ECAs with NPC, have constructed a 55 MW and a 100 MW bunker C-fired diesel generator power plants in General Santos City and Zamboanga City, respectively, under a BOO scheme. NPC supplies all fuel necessary to generate electricity, with all electricity generated purchased by NPC at a price calculated based on the formula provided in the ECAs. SPPC and WMPC shall, directly or indirectly, own the power plants and shall operate and manage the power plants and provide all power generated to NPC for a period of 18 years up to April 28, 2016 and December 12, 2015, respectively. Upon expiration of the 18-year cooperation period, the ECAs may be renewed upon the sole option of NPC. On April 28, 2016 and December 12, 2015, ECA with SPPC and WMPC have expired and not renewed by NPC, respectively.

The covering agreements also contain certain provisions with respect to NPC's payment to SPPC and WMPC, subject to certain conditions, of the total remaining amounts of the capacity fees until the end of the cooperation period, in the event of amendment, modification or repeal of any Philippine laws or any government regulations that will materially reduce, prejudice or otherwise adversely affect the companies' interest in the project or the power plant/station, and/or the economic return on their investments. The ECAs qualify as operating leases as SPPC and WMPC sell all their outputs to NPC. No energy fees earned on the ECAs in 2019, 2018 and 2017.

### **2. Operations and Maintenance (O&M) Service Agreements**

Under an Advisory Service Agreement, AIL provides PT Makassar Power (PTMP), which is an independent power producer based in Indonesia, with technical advisory services in connection with the operation and maintenance of a power plant in Indonesia for specified monthly fee of \$44,600 from August 2011 to April 2012 and \$46,600 from May 2012 to April 2015. On April 20, 2015, PTMP extended the Advisory Service Agreement with AIL for another year starting May 1, 2015. On April 30, 2016, AIL's contract with PTMP officially ended. No billings to PTMP in 2019, 2018 and 2017.

### 3. Power Supply Agreements (PSA)

Starting December 13, 2015 and April 29, 2016, WMPC, and SPPC, respectively, arranged for PSAs with the following electric cooperatives and distribution utilities:

#### WMPC

Contracting Party	Contracted Capacity (in Mega Watts)
Zamboanga City Electric Cooperative, Inc. (ZAMCELCO)	50
Cagayan Electric Power and Light Company, Inc. (CEPALCO)	30
	<b>80</b>

In January 2016, WMPC entered into interim PSAs with Davao Light and Power Company, Inc. (DLPC) and Cotabato Light and Power Company, Inc. (CLPC) for a period of four months with contracted capacity of 18 MW and 2 MW, respectively.

On September 25, 2017, CEPALCO requested to suspend its PSA starting October 2017 because based on the current supply-demand condition within its franchise area, CEPALCO will not be requiring the 30 megawatts capacity from WMPC for the meantime. Consequently, on September 26, 2017, WMPC agreed to the requested suspension. The unexpired term of the PSA between WMPC and CEPALCO shall be preserved and will resume upon prior written notice from the latter.

On September 8, 2018, WMPC filed an application with the ERC for the approval of ASPA between WMPC and National Grid Corporation of the Philippines. The approval of ASPA remains pending to date. Revenue from contracts with customers from PSAs amounted to P1,157.77 million and P1,380.93 million in 2019 and 2018, respectively, while energy fees from PSAs amounted to P1,375.49 million in 2017.

#### SPPC

Contracting Party	Contracted Capacity (in Mega Watts)
Davao Light Power Company (DLPC)	50
Cotabato Light and Power Company, Inc. (CLPC)	5
	<b>55</b>

The PSAs with CLPC and DLPC expired on April 28, 2018 and April 29, 2018, respectively, which were neither extended nor renewed. As of February 24, 2020, the SPPC has no operations. Revenue from contracts with customers from PSAs amounted to P121.24 million in 2018 (nil in 2019) while energy fees from PSAs amounted to 405.28 million in 2017.

## MPC

The details of MPC's contracted capacity (in Megawatts) with electric cooperatives based on the PSAs entered as at December 31 are as follows:

Contracting Party	Contracted Capacity (in Mega Watts)
CEPALCO	30
Surigao Del Sur I Electric Cooperative, Inc. (SURSECO I)	4
	<b>34</b>

On January 8 and June 9, 2016, MPC entered into a PSA with CEPALCO and SURSECO I, respectively, to supply energy for a period of ten (10) years.

The PSAs with ZAMCELCO and ZANECO expired on March 3, 2018 and July 31, 2018, respectively, which were not extended nor renewed. On April 29, 2019, SURSECO I decided to fully terminate their contract with MPC effective December 26, 2019.

Revenue from contracts with customers from PSAs amounted to P440.46 million and P446.12 million in 2019 and 2018, respectively, while energy fees from PSAs amounted to P 545.22 million in 2017.

## Sarangani Energy

### *Phase 1 of the Project*

Contracting Party	Contracted Capacity (in Mega Watts)
SOCOTECO II	70
Iligan Light and Power Inc.	15
Agusan del Norte Electric Cooperative	10
Agusan del Sur Electric Cooperative	10
	105

### *Phase 2 of the Project*

Contracting Party	Contracted Capacity (in Mega Watts)
South Cotabato Electric Cooperative II	
Iligan Light and Power Inc.	
Cagayan Electric Power and Light Company, Inc.	20
Davao Del Norte Electric Cooperative, Inc.	15
Davao del Sur Electric Cooperative	15
Cotabato Electric Cooperative Inc.	10
South Cotabato I Electric Cooperative	10
Zamboanga del Sur I Electric Cooperative Inc.	5
Zamboanga del Norte Electric Cooperative Inc.	5
	80

Revenue from contracts with customers from PSAs amounted to P5,411.39 million and P4,727.51 million in 2019 and 2018, respectively, while energy fees from PSAs amounted to P4,168.08 million in 2017.

## SRPI

In March 2013, SRPI entered into a PSA with ZAMCELCO for a period of 25 years from start of the SRPI's commercial operation. Contracted capacity for the related PSA was 85 MW. On September 15, 2014, Energy Regulation Commission approved the above PSA. SRPI has not entered into any additional PSA in 2019 and 2018.

### 4. Loan Agreements

- On December 12 2012, Sarangani obtained a financing facility consisting of as syndicated term loan in the aggregate principal amount of P9,300 million broken down as follows: (1) Series 1 Loan in the principal amount of up to P8,600 million for the construction of the Phase 1 100-MW coal-fired power plant and its common or shared areas and facilities; and (2) Series 2 Loan in the principal amount of up to P700 million for the construction of the transmission line. Sarangani should pay interest semi-annually at the rate equal to the higher of (a) PDST-F benchmark bid yield for five year-treasury securities plus 3.5% spread per annum, or (b) 7.5% floor rate, for the first five (5)-year period commencing from the date of initial borrowing; and thereafter, to be adjusted based on the higher of (a) interpolated PDST-R2 benchmark bid yield for eight and one-half (8 ½)-year treasury securities plus 2.75% spread per annum, or (b) interest rate applicable on the initial borrowing.
- On July 15, 2013, MPC entered into a fixed interest rate long-term OLSA amounting to P900 million from a local bank. The loan is payable in 11 semi-annual principal amortizations beginning immediately at the end of August 16, 2014, the first year from loan draw down, up to August 16, 2019. Interest is computed as the sum of the spread and the applicable benchmark rate, based on outstanding facility amount, and calculated on the basis of the actual number of days elapsed in a year of 360 days. The fixed rate shall be subject to a floor rate of 6.25% per annum, excluding gross receipt tax. The interest is payable every six months reckoned from August 16, 2013.
- On November 25, 2015, ACR entered entered into a fixed rate corporate notes facility with various noteholders with aggregate principal amount of P7.5 billion divided into two (2) tranches: (a) Tranche A with principal amount of P5.6 billion, subject to fixed interest rate of 7.24% and payable within five (5) years from the drawdown date and (b) Tranche B with principal amount of P1.9 billion, subject to fixed interest rate of 7.92% and payable with seven (7) years from the drawdown date. Proceeds of the loan shall be used to prepay ACR's existing long-term debt and finance the investments in power-related assets.

### 5. Registration with Zamboanga City Special Economic Zone Authority (ZAMBOECOZONE) and Kamanga Agro-Industrial Economic Zone

On November 20, 2012, SRPI obtained the certificate of registration and tax exemption issued by ZAMBOECOZONE. As a registered ZAMBOECOZONE enterprise, SRPI shall enjoy incentives and benefits provided for in Republic Act (R.A.) 7903 Sections 4(e) and 4(f) and Sections 43-44, 57-59 and 62 of R.A. 7903 throughout the Lease Agreement with ZAMBOECOZONE.

On June 7, 2011, PEZA approved Sarangani's registration as an Ecozone Utilities Enterprise inside Kamanga Agro-Industrial Economic Zone located at Barangay Kamanga, Maasim, Sarangani Province. As a power generation registered economic zone enterprises SRPI and Sarangani are entitled to the following incentives:

(a) Exemption from national and local taxes and in lieu thereof payment of a special tax rate of 5% on gross income; and

(b) Tax and duty free importation of capital equipment, machineries and spare parts. VAT-zero rating on local purchases subject to compliance with BIR and PEZA regulations/requirements.

## **6. Land Lease Agreement with ZAMBOECOZONE**

On January 27, 2013, SRPI entered into a Land Lease Agreement with ZAMBOECOZONE for a period of 31 years from execution of the lease agreement. The leased properties consist of: (a) 300,000 sq.m. for the Main Power Plant Area; and (b) 37,000 sq.m. for the Port Facility Area. Payment of monthly rental will commence on October 1, 2013 and subject to fee escalation. On January 27, 2014, SRPI received billing from ZAMBOECOZONE covering period October 1, 2013 to December 31, 2013. However, SRPI requested for the deferment of the recognition of its rental obligations to ZAMBOECOZONE for the three (3) months period ended December 31, 2013 pending resolution of the certain conditions requisite for the start of rental payments. SRPI requested for revised billing to reflect the three-month deferment of the full rental rates.

On April 2, 2014, ZAMBOECOZONE issued the revised billing to SRPI amounting to P10 million for the period starting January 1, 2014 to March 2015. In response to the revised billing, SRPI wrote to ZAMBOECOZONE on October 24, 2014 communicating that while the plant site was cleared of informal settlers, the conflicting positions taken by the Department of Agrarian Reform and the Office of the Government Corporate Counsel on land-use conversion made the use of the land for industrial purposes uncertain. Despite the issue on land-use conversion, SRPI tendered payment of P10 million to show good faith and willingness to continue with the contract.

## **7. Lease Commitments**

SPPC has a contract for the lease of land owned by Sarangani Agriculture Co., Inc. until May 2026. The lease contract provides for annual rent of P1 million and shall be paid in three lump-sum payment in years 2016, 2019 and 2022. The lease contract was accounted for on a straight-line method over the term of the lease.

## **8. Marketing Agreements**

ALC and SLRDI have a Marketing Agreement with Fil-Estate Group of Companies (FEGC) for the latter to market and sell the individual lots at Eagle Ridge. FEGC is entitled to a marketing commission of 12% of the sales contract price.

## **9. Engineering, Procurement and Construction Contract (EPC)**

On March 30, 2011, Sarangani entered into EPC contract with the consortium of Daelim Industrial Co. Ltd, a company incorporated in Korea, and Daelim Philippines Incorporated, a company incorporated in the Philippines ("Contractor"). Under the terms of the contract, the Contractor shall perform any and all services and provide any and all equipment and construction equipment necessary to perform the work in accordance with the EPC contract on a fixed-price, turnkey basis and shall deliver a fully operational power plant facility (SM 200). On December 29, 2011 and May 24, 2012, Amendments 1 and 2 to the

EPC, respectively, were signed, revising certain portions of the EPC. Construction of Phase 1 of the SM200 commenced in January 2013 and was completed in April 2016.

On July 6, 2016, Sarangani entered into EPC contract with JGC Corporation, a company incorporated in Japan, and JGC Philippines, Inc., a company incorporated in the Philippines ("JGC"). Under the terms of the contract, JGC shall install the second 105 MW unit and associated auxiliaries in accordance with Sarangani's requirements. On October 14, 2016, the formal Notice to Proceed was issued to JGC. The construction of Phase 2 (105 MW) commenced in January 2017 and was completed in October 2019

## **10. Joint Venture Agreements**

ALC has a Joint Venture Agreement with SLRDI for the development of ALC's parcels of land at General Trias, Cavite into a commercial and residential subdivision with golf courses, known as the Eagle Ridge Golf and Residential Estates (Eagle Ridge). The entire development shall be undertaken by SLRDI which shall receive 60% of the total sales proceeds of the lots of the subdivision, both commercial and residential, and of the golf shares. The remaining balance of 40% shall be for ALC. ALC's 40% share in the proceeds and in the cost of the lots sold is shown as part of "Sales of real estate" and "Cost of real estate sold" accounts, respectively, in the consolidated statements of income. ALC's share in the unsold lots is included under "Real estate inventories" account in the consolidated statements of financial position.

In 2006, ALC entered a joint venture agreement with Sunfields Realty Development Inc., the developer, for the development of ALC's parcels of land at Lipa and Malvar, Batangas into residential house and lots, called as the Campo Verde Subdivision. The entire development costs were shouldered by the developer. In return to their respective contributions to the project, the parties have agreed to assign a number of units of residential house and lots proportionate to their respective contributions computed as specified in the Memorandum of Agreement. The developer was assigned as the exclusive marketing agent and receives 10% of the total contract price, net of value-added tax and discounts, as marketing fee. Sales and cost of lots sold allocated to ALC are shown as part of "Real estate sales" and "Cost of real estate sales" accounts, respectively, in the consolidated statements of income.

On March 21, 2013, Aldevinco and ACIL (collectively referred as "AG") and Ayala Land, Inc. (ALI) entered into a joint venture agreement, where ALI shall own 60% and AG shall own 40% of the outstanding capital stock of the Joint Venture Corporation (JVC), Aviana. On September 17, 2013, Aviana was incorporated as the JVC. ACR has subscribed to 296 preferred shares and 32 common shares for 34% ownership in Aviana.

## **REGULATORY & ENVIRONMENTAL MATTERS**

### **a. Electric Power Industry Reform Act (EPIRA)**

Republic Act No. 9136, the EPIRA of 2001, and the covering Implementing Rules and Regulations (IRR) provide for the significant changes in the power sector which include among others:

- i. The unbundling of the generation, transmission, distribution and supply and other disposable assets, including its contracts with IPP and electricity rates;
- ii. Creation of a Wholesale Electricity Spot Market within one year; and
- iii. Open and non-discriminatory access to transmission and distribution systems.

The law also requires public listing of not less than 15% of common shares of generation and distribution companies within 5 years from the effectivity of the EPIRA. It provides cross ownership restrictions between transmission and generation companies and between transmission and distribution companies, and a cap of 50% of its demand that a distribution utility is allowed to source from an associated company engaged in generation except for contracts entered into prior to the effectivity of EPIRA.

There are also certain sections of the EPIRA, specifically relating to generation companies, which provide for a cap on the concentration of ownership to only 30% of the installed capacity of the grid and/or 25% of the national installed generating capacity. Based on the assessment of management, the operating subsidiaries have complied, with the applicable provisions of the EPIRA and its IRR.

Based on the assessment of management, the operating subsidiaries have complied with the applicable provisions of the EPIRA and its IRR.

### **b. Clean Air Act**

The Clean Air Act and the related IRR contain provisions that have an impact on the industry as a whole and on the Group in particular, that needs to be complied with. Based on the assessment made on the power plant's existing facilities, management believes that the operating subsidiaries comply with the applicable provisions of the Clean Air Act and the related IRR.

### **c. Securities and Exchange Commission**

Under the SRC, the SEC has jurisdiction and supervision over all corporations, partnerships or associations that are grantees of primary franchises, license to do business or other secondary licenses. As the government agency regulating the Philippine securities market, the SEC issues regulations on the registration and regulation of securities exchanges, the securities market, securities trading, the licensing of securities brokers and dealers and reportorial requirements for publicly listed companies and the proper application of SRC provisions, as well as the Corporation Code, and certain other statutes.

## **GENERAL CORPORATE INFORMATION**

### **INCORPORATION**

The Company is duly organized as a corporation under the laws of the Philippines and was registered with the SEC on December 24, 1974.

### **ARTICLES OF INCORPORATION AND BY-LAWS**

The Articles of Incorporation of the Company were approved by the SEC on December 24, 1974. The latest amended Articles were approved by the SEC on August 11, 2014.

The By-Laws of the Company were registered with the SEC on December 24, 1974 and were amended on July 16, 2004.

### **PRIMARY PURPOSE**

To acquire by purchase, exchange, assignment, gift or otherwise, and to hold, own and use for investment or otherwise, and to sell, assign, transfer, exchange, lease, let, develop, mortgage, pledge, traffic, deal in, and with, and otherwise to operate, manage, enjoy and dispose of, any and all properties of every kind and description and whatever situated, as and to the extent permitted by the law, including but not limited to, buildings, tenements, warehouses, factories, edifices and structures and other improvements, and bonds, debentures, promissory notes, shares of capital stock, or other securities or obligations, created, negotiated or issued by any corporation, association, or other entity, foreign or domestic and while the owner, holder or possessor thereof, to exercise all the rights, powers and privileges of ownership or any other interest therein, including the right to receive, collect and dispose of, any and all rentals, dividends, interests and income, derived therefrom, and the right to vote on any proprietary or other interest, on any shares of the capital stock, and upon any bonds, debentures, or other securities having voting power, owned or held; and provided that it shall not engage in the business of an open-end or close-end investment company as defined in the Investment Company Act (Republic Act No. 2629)

### **CORPORATE TERM**

The Company has perpetual existence pursuant to the Corporation Code. Section 11 of the Corporation Code grants corporations perpetual existence unless its articles of incorporation provides otherwise. Corporations established prior to the effectivity of the Corporation Code shall have perpetual existence unless the shareholders owning and/or representing at least a majority of the outstanding capital stock notifies the SEC that it elects to retain its corporate term pursuant to its articles of incorporation. The Company has not made such election to retain its corporate term indicated in its Articles of Incorporation.

### **FISCAL YEAR**

The business year of the Company begins on the first day of January and ends on the last day of December of each year.



**APPROVALS**

The issuance and sale of the CPs were duly authorized by the Board of Directors of the Company on October 13, 2016.

**DOCUMENTS AVAILABLE FOR INSPECTION**

Copies of the Articles of Incorporation and By-laws are available for inspection at the principal office of the Company, during normal business hours on any day on which such office is open for business. Copies may also be inspected at the office of the SEC.

## PHILIPPINE TAXATION

*Following is a general description of certain Philippine tax aspects of investment by prospective CP Holders. This discussion is based upon Philippine tax laws, in particular the Tax Code, its implementing regulations and rulings in effect at the date of this Prospectus. Subsequent legislative, judicial or administrative changes or interpretations may be retroactive and could affect the tax consequences to the prospective CP Holders.*

*The tax treatment of a prospective CP Holder may vary depending on such CP Holder's particular situation and certain prospective CP Holders may be subject to special rules not discussed below. This summary does not purport to address all tax aspects that may be important to a prospective CP Holder.*

*This general description does not purport to be a comprehensive description of the Philippine tax aspects of investment in the CPs and no information is provided regarding the tax aspects of acquiring, owning, holding or disposing the CPs under applicable tax laws of other jurisdictions and the specific tax consequence in light of particular situations of acquiring, owning, holding and disposing the CPs in such other jurisdictions.*

**EACH PROSPECTIVE CP HOLDER SHOULD CONSULT WITH HIS OWN TAX ADVISER AS TO THE PARTICULAR TAX CONSEQUENCES TO SUCH CP HOLDER OF PURCHASING, OWNING AND DISPOSING OF THE CPs, INCLUDING THE APPLICABILITY AND EFFECT OF ANY STATE, LOCAL AND NATIONAL TAX LAWS.**

As used in this section, the term "resident alien" refers to an individual whose residence is within the Philippines but who is not a citizen of the Philippines; a "non-resident alien" is an individual whose residence is not within the Philippines and who is not a citizen of the Philippines; a non-resident alien who is actually within the Philippines for an aggregate period of more than 180 days during any calendar year is considered a "non-resident alien doing business in the Philippines"; otherwise, such non-resident alien who is actually within the Philippines for an aggregate period of 180 days or less during any calendar year is considered a "non-resident alien not doing business in the Philippines." A "resident foreign corporation" is a foreign corporation engaged in trade or business within the Philippines; and a "non-resident foreign corporation" is a foreign corporation not engaged in trade or business within the Philippines. The term "foreign" when applied to a corporation means a corporation which is not domestic while the term "domestic" when applied to a corporation means a corporation created or organized in the Philippines or under its laws.

### **Taxation of Interest Income/Discount**

The CPs will be, under current interpretation of the Tax Code, treated as, a deposit substitute instrument as such term is defined under the Tax Code. Interest income earned or yield or any other monetary benefit from the CPs realized by the CP Holders shall be taxed as described in the following sections.

#### **Interest income/Discount earned by individuals**

As a general rule, interest income earned or yield or any other monetary benefit from the CPs realized by individual citizens of the Philippines, resident aliens and non-resident aliens engaged in trade or business in the Philippines is subject to a final withholding tax at the rate of 20%.

Transfers or assignments of the CPs by the CP Holders are subject to a final tax on the interest income already earned by the transferor CP Holder which shall be borne by the CP Holder.

Interest income received by non-resident aliens not engaged in trade or business in the Philippines shall generally be subject to a final withholding tax of 25%. However, such tax rate may be reduced under an applicable tax treaty.

#### **Interest income/Discount earned by corporations**

Interest income earned or yield or any other monetary benefit derived by domestic and resident foreign corporations from the CPs shall be subject to a final withholding tax of 20% of such interest income.

On the other hand, interest income received by a non-resident foreign corporation shall be subject to 30% final withholding tax. This rate may also be reduced under an applicable tax treaty.

#### **Interest income/Discount earned by trusts**

A trust is generally taxed in the same way as an individual pursuant to the Tax Code which provides that the tax imposed upon individuals shall apply to the income of any kind of property held in trust (except qualifying employee's trust considered tax-exempt). Accordingly, since trusts are, for tax purposes, treated as an individual, interest income earned by trusts are likewise subject to the 20% final withholding tax.

#### **Tax-exempt persons**

All sums payable by the Issuer to tax-exempt persons shall be paid in full without deductions for taxes, duties, assessments, or government charges, subject to the submission to the Registrar by the CP Holder claiming the exemption of reasonable evidence of such exemption.

#### **DOCUMENTARY STAMP TAXES**

The Tax Code imposes a documentary stamp tax on all debentures, certificates of indebtedness, due bills, bonds, loan agreements, deposit substitute debt instruments at the rate of ₱1.50 on every ₱200, or fractional part thereof, of the face value of such securities; Provided, that for such debt instruments with terms of less than one (1) year, the documentary stamp tax to be collected shall be of a proportional amount in accordance with the ratio of its term in number of days to three hundred sixty-five (365) days. The Company has undertaken to pay the documentary stamp tax on the issuance of the CPs.

#### **VALUE-ADDED TAX AND GROSS RECEIPTS TAX**

At issuance, no VAT shall be imposable upon the CPs. Subsequent transfers shall similarly be free of VAT, unless the CP Holder is a dealer in securities. In that instance, the CP Holder shall be liable to pay 12% VAT on the gross income derived from the trading of the CPs.

Under Republic Act No. 9238, services rendered in the Philippines by, among others, banks, non-bank financial intermediaries, quasi-banks, finance companies, and other financial intermediaries not performing quasi-banking functions (excluding insurance companies) are exempted from the coverage of the VAT. The exemption, which took effect retroactively on 1 January 2004, reverts to the application of the GRT regime on services rendered by banks, non-bank financial intermediaries, quasi-banks, finance companies, and other financial intermediaries not performing quasi-banking functions (excluding insurance companies). Rates of GRT shall be as follows:

(1) Banks and Non-Bank Financial Intermediaries Performing Quasi-Banking Functions:

- (a) On interest, commission and discounts from lending activities as well as income from financial leasing, on the basis of the remaining maturities of instruments from which such receipts are derived:
  - Maturity period is five years or less – 5%
  - Maturity period is more than five years – 1%
- (b) On dividends and equity shares in net income of subsidiaries – 0%
- (c) On royalties, rentals of real or personal property, profits from exchange and all other items treated as gross income under the Tax Code – 7%
- (d) On net trading gains within the taxable year on foreign currency, debt securities, derivatives and other similar financial instruments – 7%

(2) Other Non-Bank Financial Intermediaries:

- (a) On interest, commission, discounts and all other items treated as gross income under the Tax Code – 5%
- (b) On interest, commission and discounts from lending activities as well as income from financial leasing, on the basis of the remaining maturities of instruments from which such receipts are derived:
  - Maturity period is five years or less – 5%
  - Maturity period is more than five years – 1%

## **ESTATE AND DONOR'S TAX**

The transfer of the CPs by a decedent to his heirs, whether or not such decedent was residing in the Philippines, will be subject to an estate tax which is levied on the net estate of the deceased at a rate of six percent (6%).

CP Holders, whether or not citizens or residents of the Philippines, will be subject to donor's tax upon the donation of the CPs to any person at a rate of 6% computed on the basis of the total gifts in excess of Php 250,000 per year.

The estate tax, as well as the donor's tax in respect of the CPs, shall not be collected if: (a) the deceased at the time of his death or donation was a citizen and resident of a foreign country which, at the time of his death or donation, did not impose a transfer tax of any character in respect of intangible personal property of citizens of the Philippines not residing in that foreign country; or (b) the laws of the foreign country of which the deceased or the donor was a citizen and resident at the time of his death or donation allows a similar exemption from transfer or death taxes of every character or description in

respect of intangible personal property owned by citizens of the Philippines not residing in that foreign country.

#### **TAXATION OUTSIDE THE PHILIPPINES**

The tax treatment of non-resident CP Holders in jurisdictions outside the Philippines may vary depending on the tax laws applicable to such holder by reason of domicile or business activities and such holder's particular situation. This Prospectus does not discuss the tax considerations on such non-resident holders under laws other than those of the Philippines.



**Alsons Consolidated Resources, Inc.**  
(Listed in the Philippine Stock Exchange Trading Symbol "ACR")  
2nd Floor, Alsons Building  
2286 Chino Roces Ext., (formerly P. Tamo Ext.), Makati City  
1231 Metro Manila Philippines  
Tel. Nos.: (632) 982-3000 Fax Nos.: (632) 982-3077  
Website: [www.acr.com.ph](http://www.acr.com.ph)

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June 8, 2020

**SECURITIES AND EXCHANGE COMMISSION**  
Market and Securities Regulation Department  
North Wing, Ground Floor, Secretariat Building  
PICC, Pasay City

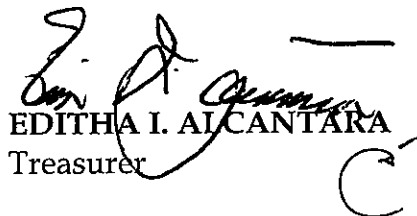
Attention: **Mr. Vicente Graciano P. Felizmenio, Jr.**  
*Director, Market and Securities Regulation Department*

Re: Commercial Paper Program

Gentlemen:

In compliance with your letter dated May 28, 2020, we consent to the extension of the forty-five (45) days processing period in relation to the Registration Statement filed by Alsons Consolidated Resources, Inc. for its Php1 Billion commercial paper issuance.

Very truly yours,

  
EDITHA I. ALCANTARA  
Treasurer

**TIRSO G. SANTILLAN, JR.**  
Executive Vice President



**Alsons Consolidated Resources, Inc.**

Alsons Building, 2286 Chino Roces Avenue  
1231 Makati City, Philippines  
Tel. Nos. (632) 8982-3000  
Website: [www.acr.com.ph](http://www.acr.com.ph)

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June 8, 2020

**SECURITIES AND EXCHANGE COMMISSION**

Market and Securities Regulation Department  
North Wing, Ground Floor, Secretariat Building  
PICC, Pasay City

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*Director, Market and Securities Regulation Department*

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Very truly yours,

EDITHA I. ALCANTARA  
Treasurer

TIRSO G. SANTILLAN, JR.  
Executive Vice President

**Instructions for accomplishment of the CP Follow-on Issue Form.**

This Form is composed of three (3) parts:

- |           |   |
|-----------|---|
| Section A | Information on Issuer and Listed CP Program |
| Section B | Security Information                        |
| Section C | Warranties                                  |

**FOR PDEX USE: INITIAL APPLICATION**  
 No.:  
 Date:

This Form is for the use of an Issuer of a CP Program listing Follow-on Issues under the same Program for trading on the PDEX. PDEX reserves the right to require additional documents or information. The Issuer shall submit three (3) original signed and notarized copies of this Form.

The PDS Group deems all information given in this CP Follow-on Issue Form in connection with the listing of the Follow-on Issues to be true and correct, and PDS Group's reliance hereon is duly warranted. PDS Group shall be held free and harmless from any and all liability for acting or failing to act based on reliance on the information herein. This form shall be appended to the listing application for the CP Program.

### SECTION A - INFORMATION ON ISSUER AND CP PROGRAM

<b>Registered Corporate Name of the Issuer</b>	ALSONS CONSOLIDATED RESOURCES, INC.
<b>Principal Business Address</b>	Alsons Building, 2286 Chino Roces Avenue, Makati City 1231

<b>SEC Approval of the Listed CP Program under which Follow-on Issue will be issued</b>
Order of Registration Number: SEC-MSRD Order No. 25, Series of 2018
Date:
Total Face Amount: Php 2,500,000,000.00

<b>CP Program Issue Date:</b>
-------------------------------

<b>CP Program Listing Date:</b>
---------------------------------

**List of CP Currently Issued and Listed Under the Program:**

Name	Amount Outstanding	Issue Date	Listing Date	Maturity Date
1. ACR CP	Php 402,000,000.00	Feb. 11, 2020	Feb. 11, 2020	Aug. 11, 2020
2. ACR CP	Php 608,000,000.00	July 12, 2019	July 12, 2019	July 10, 2020
3.				
4.				
5.				
6.				
7.				
8.				
9.				
10.				

**TOTAL OUTSTANDING AMOUNT**

Php 1,100,000,000.00



## SECTION B -SECURITY INFORMATION

### SECURITY 1

<b>Exact Title and Class of Security</b> COMMERCIAL PAPER			<b>Currency</b> PHP
<b>Issue Date</b> 3rd Quarter 2020	<b>Maturity Date</b> TBD	<b>Amount Issued</b> Php 1,000,000,000.00	<b>Amount Outstanding</b> Php 1,000,000,000.00
<b>No. of Units</b> N.A.	<b>Par Value</b> N.A.	<b>Offering Price</b> Discount to Face Value	<b>Redemption Price</b> Face Value
<b>Coupon Type</b> <input type="checkbox"/> Fixed Specify Rate _____ <input type="checkbox"/> Floating <input type="checkbox"/> Stepped <input checked="" type="checkbox"/> Zero-Coupon			
<b>Basis for Determining Rate for Floating Rate Securities</b> (indicate if information is otherwise included or contained in other documents submitted) N.A.			
<b>Description of Stepped Coupon Provision, if any</b> (indicate if information is otherwise included or contained in other documents submitted) N.A.			
<b>Coupon Frequency</b> <input type="checkbox"/> Quarterly <input type="checkbox"/> Semi-Annual <input type="checkbox"/> Annual	<b>Coupon Payment Dates</b> N.A.		<b>Day Count Convention</b> <input type="checkbox"/> 30E/360 ISMA <input checked="" type="checkbox"/> Actual/360 <input type="checkbox"/> Actual/365 <input type="checkbox"/> Actual/Actual
<b>Principal Repayment Schedule</b> <input checked="" type="checkbox"/> Balloon <input type="checkbox"/> Amortized (attach amortization schedule)		<b>Record Date</b> (no. of business days prior to Payment Date) N.A.	<b>Closed Period</b> Period from Record Date <input type="checkbox"/> Inclusive <input type="checkbox"/> Exclusive of Payment Date
<b>Description of Pretermination Provisions, if any</b> None			
<b>Restrictions on Transfer of Security</b> <input checked="" type="checkbox"/> No restrictions <input type="checkbox"/> Restricted to Qualified Investors <input type="checkbox"/> Other Restrictions, pls. specify			
<b>Description of Guarantees/Credit Enhancements</b> None			
<b>Description of Convertibility Features, if any</b> N.A.			
<b>Name of Registry</b> PHILIPPINE DEPOSITORY AND TRUST CORPORATION Contact Person: Ms. Anne M. Bautista Telephone Numbers 8884-5000			
<b>Name of Facility Agent/Trustee or equivalent</b> AB CAPITAL AND INVESTMENT CORPORATION - TRUST DEPARTMENT Contact Person: Mr. Reynaldo R. Goco Telephone Number 8898-7555			
<b>Name(s) of Issue Manager(s)/Arranger(s)/Underwriter(s)</b> MULTINATIONAL INVESTMENT BANCORPORATION Contact Person: Ms. Patricia G. Flores Telephone Number 8817-1511			
<b>Other Salient Terms and Features of the Securities</b> (attach additional sheets as necessary, or indicate if information is otherwise included or contained in other documents submitted)			

## SECTION B -SECURITY INFORMATION

### SECURITY 2

<b>Exact Title and Class of Security</b> Commercial Paper			<b>Currency</b> Php
<b>Issue Date</b>	<b>Maturity Date</b>	<b>Amount Issued</b>	<b>Amount Outstanding</b>
<b>No. of Units</b>	<b>Par Value</b>	<b>Offering Price</b>	<b>Redemption Price</b>
<b>Coupon Type</b> <input type="checkbox"/> Fixed Specify Rate _____ <input type="checkbox"/> Floating <input type="checkbox"/> Stepped <input type="checkbox"/> Zero-Coupon			
<b>Basis for Determining Rate for Floating Rate Securities</b> (indicate if information is otherwise included or contained in other documents submitted)			
<b>Description of Stepped Coupon Provision, if any</b> (indicate if information is otherwise included or contained in other documents submitted)			
<b>Coupon Frequency</b> <input type="checkbox"/> Quarterly <input type="checkbox"/> Semi-Annual <input type="checkbox"/> Annual	<b>Coupon Payment Dates</b>		<b>Day Count Convention</b> <input type="checkbox"/> 30E/360 ISMA <input type="checkbox"/> Actual/360 <input type="checkbox"/> Actual/365 <input type="checkbox"/> Actual/Actual
<b>Principal Repayment Schedule</b> <input type="checkbox"/> Balloon <input type="checkbox"/> Amortized (attach amortization schedule)		<b>Record Date</b> (no. of business days prior to Payment Date)	<b>Closed Period</b> Period from Record Date <input type="checkbox"/> Inclusive <input type="checkbox"/> Exclusive of Payment Date
<b>Description of Pretermination Provisions, if any</b>  None			
<b>Restrictions on Transfer of Security</b> <input type="checkbox"/> No restrictions <input type="checkbox"/> Restricted to Qualified Investors <input type="checkbox"/> Other Restrictions, pls. specify			
<b>Description of Guarantees/Credit Enhancements</b>			
<b>Description of Convertibility Features, if any</b>			
<b>Name of Registry</b> Philippine Depository and Trust Corporation Contact Person: _____ Telephone Numbers _____			
<b>Name of Facility Agent/Trustee or equivalent</b> AB Capital and Investment Corporation - Trust Department Contact Person: _____ Telephone Number _____			
<b>Name(s) of Issue Manager(s)/Arranger(s)/Underwriter(s)</b> Multinational Investment Bancorporation Contact Person: _____ Telephone Number _____			
<b>Other Salient Terms and Features of the Securities</b> (attach additional sheets as necessary, or indicate if information is otherwise included or contained in other documents submitted)			

## SECTION B - SECURITY INFORMATION

### SECURITY 3

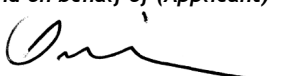
<b>Exact Title and Class of Security</b> Commercial Paper			<b>Currency</b> Php
<b>Issue Date</b>	<b>Maturity Date</b>	<b>Amount Issued</b>	<b>Amount Outstanding</b>
<b>No. of Units</b>	<b>Par Value</b>	<b>Offering Price</b>	<b>Redemption Price</b>
<b>Coupon Type</b> <input type="checkbox"/> Fixed Specify Rate _____ <input type="checkbox"/> Floating <input type="checkbox"/> Stepped <input type="checkbox"/> Zero-Coupon			
<b>Basis for Determining Rate for Floating Rate Securities</b> (indicate if information is otherwise included or contained in other documents submitted)			
<b>Description of Stepped Coupon Provision, if any</b> (indicate if information is otherwise included or contained in other documents submitted)			
<b>Coupon Frequency</b> <input type="checkbox"/> Quarterly <input type="checkbox"/> Semi-Annual <input type="checkbox"/> Annual	<b>Coupon Payment Dates</b>		<b>Day Count Convention</b> <input type="checkbox"/> 30E/360 ISMA <input type="checkbox"/> Actual/360 <input type="checkbox"/> Actual/365 <input type="checkbox"/> Actual/Actual
<b>Principal Repayment Schedule</b> <input type="checkbox"/> Balloon <input type="checkbox"/> Amortized (attach amortization schedule)		<b>Record Date</b> (no. of business days prior to Payment Date)	<b>Closed Period</b> Period from Record Date <input type="checkbox"/> Inclusive <input type="checkbox"/> Exclusive of Payment Date
<b>Description of Pretermination Provisions, if any</b>			
<b>Restrictions on Transfer of Security</b> <input type="checkbox"/> No restrictions <input type="checkbox"/> Restricted to Qualified Investors <input type="checkbox"/> Other Restrictions, pls. specify			
<b>Description of Guarantees/Credit Enhancements</b>			
<b>Description of Convertibility Features, if any</b>			
<b>Name of Registry</b> Philippine Depository and Trust Corporation Contact Person: _____ Telephone Numbers _____			
<b>Name of Facility Agent/Trustee or equivalent</b> AB Capital and Investment Corporation - Trust Department Contact Person: _____ Telephone Number _____			
<b>Name(s) of Issue Manager(s)/Arranger(s)/Underwriter(s)</b> Multinational Investment Bancorporation Contact Person: _____ Telephone Number _____			
<b>Other Salient Terms and Features of the Securities</b> (attach additional sheets as necessary, or indicate if information is otherwise included or contained in other documents submitted)			

## SECTION C - ADDITIONAL DECLARATION AND UNDERTAKING

The Issuer, Alsons Consolidated Resources, Inc., a corporation duly organized and existing under and by virtue of the laws of the Republic of the Philippines, with principal office address at Alsons Bld, 2286 Chino Roces, Makati, represented herein by its EVP/ Treasurer Tirso G. Santillan, Jr./ Editha I. Alcantara, after having been sworn in accordance with law, does hereby represent, warrant, and undertake the following in favor of the Philippine Dealing & Exchange Corp., Philippine Depository & Trust Corp., Philippine Securities Settlement Corp., (collectively, the Philippine Dealing System Group of Companies ("PDS Group")), in relation to the Issuer's application for listing of the Follow-on Issues dated                      under the same P2.5 billion CP Program due                      (the "CP Program"):

1. The Issuer has previously applied its entire CP Program for admission for trading and settlement under the Listing/Enrolment Program of the PDS Group on October 26, 2018;
2. As part of its application, the Issuer executed an Issuer's Declaration and Undertaking dated June 14, 2018 ("Issuer's Declaration and Undertaking"). The CP Program was subsequently admitted for trading and settlement under the Listing/Enrolment Program of the PDS Group on October 26, 2018;
3. Pursuant to its desire to have its follow-on issues under the said CP Program admitted for trading and settlement under the Listing/Enrolment Program of the PDS Group, the Issuer hereby executes this Additional Declaration and Undertaking;
4. The Issuer warrants that the Issuer's Declaration and Undertaking remains valid and in full force and effect, and that the declarations, warranties, and undertaking contained therein shall apply to the subject follow-on issues;
5. The Issuer further warrants that all previous documents submitted by the Issuer to the PDS Group relating to the CP Program remain valid, up-to-date, and in effect, and shall be used and applied for the purpose of listing the subject follow-on issues;
6. The Issuer warrants that all information contained in these aforementioned documents previously provided to the PDS Group are true, complete, current, and correct, and undertakes to keep and maintain the same in such state;
7. If any acknowledgment or warranty of the undersigned in this instrument is or becomes untrue; or if the Issuer violates any warranty herein set forth, PDS Group shall be authorized in its reasonable discretion, to suspend or revoke admission of the securities of the Issuer in the Listing/Enrolment Program or to take against the Issuer any action it deems fit;
8. The Issuer undertakes to complete this CP Follow-on Form in good faith; and
9. The Issuer has the requisite power, right, and authority to execute this instrument and to perform all of the obligations specified hereunder, and that execution hereof is not in violation or contravention of any applicable laws, rules or regulations, or commitments to any other party.

The Issuer acknowledges and understands that receipt hereof does not guarantee acceptance of the application by the PDS Group. It is further understood that PDS Group has the right to accept or reject the application for listing of the follow-on issues, based on the PDEX Rules.

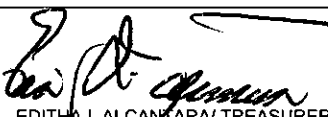
<p><b><i>For and on behalf of (Applicant)</i></b></p> <p>By: </p> <p style="text-align: center;">TIRSO G. SANTILLAN, JR/ EXECUTIVE VICE PRESIDENT Signature above Printed Name and Title</p> <p>Date Signed: _____</p>	<p>By: _____</p> <p style="text-align: center;">EDITHA I. ALCANTARA/ TREASURER Signature above Printed Name and Title</p> <p>Date Signed: _____</p>
<p><b><i>Acceptance of PDEX</i></b></p> <p>By: _____</p> <p style="text-align: center;">Antonino A. Nakpil/President &amp; COO</p> <p>Date Accepted: _____</p>	

## SECTION C - ADDITIONAL DECLARATION AND UNDERTAKING

The Issuer, Alsons Consolidated Resources, Inc., a corporation duly organized and existing under and by virtue of the laws of the Republic of the Philippines, with principal office address at Alsons Bld, 2286 Chino Roces, Makati, represented herein by its EVP/ Treasurer Tirso G. Santillan, Jr./ Editha I. Alcantara, after having been sworn in accordance with law, does hereby represent, warrant, and undertake the following in favor of the Philippine Dealing & Exchange Corp., Philippine Depository & Trust Corp., Philippine Securities Settlement Corp., (collectively, the Philippine Dealing System Group of Companies ("PDS Group")), in relation to the Issuer's application for listing of the Follow-on Issues dated                      under the same P2.5 billion CP Program due                      (the "CP Program"):

1. The Issuer has previously applied its entire CP Program for admission for trading and settlement under the Listing/Enrolment Program of the PDS Group on October 26, 2018;
2. As part of its application, the Issuer executed an Issuer's Declaration and Undertaking dated June 14, 2018 ("Issuer's Declaration and Undertaking"). The CP Program was subsequently admitted for trading and settlement under the Listing/Enrolment Program of the PDS Group on October 26, 2018;
3. Pursuant to its desire to have its follow-on issues under the said CP Program admitted for trading and settlement under the Listing/Enrolment Program of the PDS Group, the Issuer hereby executes this Additional Declaration and Undertaking;
4. The Issuer warrants that the Issuer's Declaration and Undertaking remains valid and in full force and effect, and that the declarations, warranties, and undertaking contained therein shall apply to the subject follow-on issues;
5. The Issuer further warrants that all previous documents submitted by the Issuer to the PDS Group relating to the CP Program remain valid, up-to-date, and in effect, and shall be used and applied for the purpose of listing the subject follow-on issues;
6. The Issuer warrants that all information contained in these aforementioned documents previously provided to the PDS Group are true, complete, current, and correct, and undertakes to keep and maintain the same in such state;
7. If any acknowledgment or warranty of the undersigned in this instrument is or becomes untrue; or if the Issuer violates any warranty herein set forth, PDS Group shall be authorized in its reasonable discretion, to suspend or revoke admission of the securities of the Issuer in the Listing/Enrolment Program or to take against the Issuer any action it deems fit;
8. The Issuer undertakes to complete this CP Follow-on Form in good faith; and
9. The Issuer has the requisite power, right, and authority to execute this instrument and to perform all of the obligations specified hereunder, and that execution hereof is not in violation or contravention of any applicable laws, rules or regulations, or commitments to any other party.

The Issuer acknowledges and understands that receipt hereof does not guarantee acceptance of the application by the PDS Group. It is further understood that PDS Group has the right to accept or reject the application for listing of the follow-on issues, based on the PDEX Rules.

<p><i>For and on behalf of (Applicant)</i></p> <p>By:</p> <p>TIRSO G. SANTILLAN, JR/ EXECUTIVE VICE PRESIDENT</p> <p>Signature above Printed Name and Title</p> <p>Date Signed:</p>	<p>By: </p> <p>EDITHA I. ALCANTARA/ TREASURER</p> <p>Signature above Printed Name and Title</p> <p>Date Signed:</p>
<p><b>Acceptance of PDEX</b></p> <p>By:</p> <p>Antonino A. Nakpil/President &amp; COO</p> <p>Date Accepted:</p>	

I certify that on this date, before me, a Notary Public duly authorized in the City of Makati to take acknowledgements, personally appeared:

Name	CTC No.	Date/Place Issued	Government ID No.	Issue Date/ Expiry Date
Tirso G. Santillan, Jr		LTO, QC	DL No. N17-72-000977	2023/02/12
Editha I. Alcantara		DFA NCR South	P: EC4769595	2020/07/28

who were identified by me through competent evidence of identity to be the same persons described in the foregoing instrument, who acknowledged before me that their respective signatures on the instrument were voluntarily affixed by them for the purposes stated therein, and who declared to me that they have executed the instrument as their free and voluntary act and deed and that they have the authority to sign on behalf of their respective principals.

IN WITNESS WHEREOF, I hereunto set my hand and affix my notarial seal on the date and at the place above written.

Doc. No.: \_\_\_\_\_;  
Page No.: \_\_\_\_\_;  
Book No.: \_\_\_\_\_;  
Series of 20\_\_\_\_.

# COVER SHEET

for  
AUDITED FINANCIAL STATEMENTS

SEC Registration Number

					5	9	3	6	6
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Company Name

A	L	S	O	N	S		C	O	N	S	O	L	I	D	A	T	E	D		R	E	S	O	U	R	C	E	S	,
I	N	C	.																										

Principal Office (No./Street/Barangay/City/Town/Province)

A	L	S	O	N	S		B	U	I	L	D	I	N	G	,		2	2	8	6		C	H	I	N	O			
R	O	C	E	S		A	V	E	N	U	E	,		M	A	K	A	T	I		C	I	T	Y	,				
M	E	T	R	O		M	A	N	I	L	A	,		P	H	I	L	I	P	P	I	N	E	S					

Form Type

1	7	-	A
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Department requiring the report

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Secondary License Type, If Applicable

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## COMPANY INFORMATION

Company's Email Address

legal@alcantaragroup.com
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Company's Telephone Number/s

8982 - 3000

Mobile Number

--

No. of Stockholders

464

Annual Meeting  
Month/Day

Any day of May

Fiscal Year  
Month/Day

December 31

## CONTACT PERSON INFORMATION

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

Name of Contact Person

Jun Saldivar

Email Address

jsaldivar@alcantaragroup.com

Telephone Number/s

8982-3000

Mobile Number

--

Contact Person's Address

**Alsons Building, 2286 Chino Roces Avenue, 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.

**SECURITIES AND EXCHANGE COMMISSION  
SEC FORM 17-A**

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

1. For the fiscal year ended 31 December 2019
2. SEC Identification Number 59366      3. BIR Tax Identification No. 001-748-412
4. ALSONS CONSOLIDATED RESOURCES, INC.  
Exact name of registrant as specified in its charter
5. Philippines      6. (SEC Use Only)   
Province, country or other jurisdiction of      Industry Classification Code:  
incorporation
7. Alsons Building, 2286 Don Chino Roces Avenue, Makati City, Philippines      1231  
Address of principal office      Postal Code
8. (632) 8982-3000  
Registrant's telephone number, including area code
9. (Not applicable)  
Former name or former address, if changed since last report
10. Securities registered pursuant to Sections 8 and 12 of the SRC
- | Title of Each Class          | Number of Shares of Common Stock<br>Outstanding and Amount of Debt<br>Outstanding |
|------------------------------|---|
| Common Stock ₱1.00 par value | 6,291,500,000 Shares  |
11. Are any or all of these securities listed on the Philippine Stock Exchange?  
Yes ☒      No ☐
12. Check whether the registrant:
- (a) has filed all reports required to be filed by Section 17 of the SRC and SRC Rule 17 there under or Section 11 of the Revised Securities Act (RSA) and RSA Rule 11(a)-1 thereunder and Sections 26 and 141 of the Corporation Code of the Philippines during the preceding 12 months (or for such shorter period that the registrant was required to file such reports):  
Yes ☒      No ☐
- (b) has been subject to such filing requirements for the past 90 days.  
Yes ☒      No ☐
13. Aggregate market value of the voting stock held by non-affiliates of the registrant:  
₱1,159,063,836.32  
Assumption: Based on Closing Price of ₱0.92 as of 30 April 2020 and on 1,259,851,996 shares.



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## **PART I - BUSINESS AND GENERAL INFORMATION**

### **Item 1. BUSINESS**

Alsons Consolidated Resources, Inc. (ACR or the Company) was incorporated on December 24, 1974 as Victoria Gold Mining Corporation to engage in the business of exploration of oil, petroleum and other mineral products. The corporate name was changed to Terra Grande Resources, Inc. (Tegre) in March 1995.

In 1994, the Alcantara Group, through Alsons Power Holdings Corporation (APHC), acquired a 55.80% interest in Tegre through a swap of APHC's 50.78% stake in Northern Mindanao Power Corporation (NMPC). The Securities and Exchange Commission (SEC) formally approved the stock swap on March 4, 1995 together with the increase in the Company's authorized capital stock from ₱1 billion to ₱3 billion.

The corporate name was changed to Alsons Consolidated Resources, Inc. in June 1995 to mark the entry of the Alcantara Group. The Company's primary purpose was subsequently changed to that of an investment holding company, and oil exploration was relegated to a secondary purpose.

On October 10, 1996, the Company completed its reorganization through a series of stock swaps. As a result, some of the Alcantara Group's established businesses became majority- or minority-owned subsidiaries of ACR, whose authorized capital was further increased from ₱3 billion to ₱12 billion.

ACR's core businesses, conducted through its various subsidiaries and associates, can be grouped into the following main categories: a) Energy and Power, b) Property Development, and c) Other Investments. A description of the general nature and scope of these businesses is presented below:

#### **Energy and Power**

ACR's investment in the Energy and Power business is through four holding firms namely, Conal Holdings Corporation (Conal or CHC), Alsing Power Holdings, Inc. (Alsing), Alsons Renewable Energy Corporation (AREC), and Alsons Thermal Energy Corporation (ATEC). Conal owns all of ACR's diesel plant operating power generation businesses, namely: (1) Alsing Power Holdings, Inc. at 80%, (2) Alto Power Management Corporation at 60%, and (3) Mapalad Power Corporation at 100%. Alsing, in turn, owns 55% of: (a) Western Mindanao Power Corporation; and (b) Southern Philippines Power Corporation. Further, ACR directly owns 20% of Alsing. AREC, which was organized on September 18, 2014, is currently developing Siguil Hydro Power Corporation, Kalaong Hydro Power Corporation, Bago Hydro Resources Corporation and Sindangan Zambo-River Power Corporation, all in the business of renewable energy, and holds 100% of these entities. ATEC was organized on November 23, 2015, and ACR transferred its ownership in Sarangani Energy Corporation (Sarangani Energy) to ATEC on October 13, 2016.

ACR also formed Aces Technical Services Corporation (ACES), a wholly-owned subsidiary, on July 7, 2011, and it serves as the operations and maintenance provider of Sarangani Energy and San Ramon Power, Inc. (SRPI). ACR transferred its ownership in ACES and SRPI to ATEC on October 12, 2016, and May 24, 2017, respectively.

On June 3, 2017, the Company signed an agreement with Global Business Power Corporation (GBP) for GBP to acquire a 50% less one share stake in ATEC. The Philippine Competition Commission approved the transaction on September 25, 2017, and the Deed of Absolute Sale was signed on

November 27, 2017. The partnership combines ACR's distinct knowledge of the Mindanao power market, development thru long years of experience as the island's first independent power producer and with GBP's track record as the leading power producer in the Visayas. The Company believes that this endeavor will greatly benefit power consumers particularly in light of the planned interconnection of the Mindanao and Visayas grids. The partnership will also give ACR the opportunity to pursue with greater strength its energy-based projects, particularly its renewable power generating plants in Mindanao and Western Visayas. This will also allow ACR to accelerate its foray and entry in other energy-related enterprises in Southern Philippines, including the smaller islands with promising growth in power demands.

ACR also has a wholly owned subsidiary, Alsons Power International Limited (APIL), which develops power plant projects outside the country.

The five (5) operating power generation subsidiaries, Western Mindanao Power Corporation (WMPC) and Southern Philippines Power Corporation (SPPC), Mapalad Power Corporation (MPC) and Sarangani Energy are all located in Mindanao.

WMPC operates a 100-megawatt (MW) diesel-fired electricity generating facility in Zamboanga City as a merchant plant after its 18-year "Build-Operate-Own" (BOO) arrangement with the National Power Corporation (NPC) expired in December 2015. SPPC owns a 55 MW diesel-fired electricity generating facility located in Alabel, Sarangani Province, 13 kilometers east of General Santos City. SPPC's 18-year BOO arrangement with NPC expired on April 28, 2016.

MPC rehabilitated the 103MW bunker-fired Iligan Diesel Power Plants (IDPPs) I and II, which Conal acquired from the Iligan City Government and started operating these plants on February 27, 2013. MPC currently functions as a merchant plant and serves various electric cooperatives in Mindanao.

Sarangani Energy's 210MW coal-fired power plants are located in Maasim, Sarangani Province. Its first section of 105MW began commercial operations in April 2016, while its second section of another 105MW or Phase 2 started commercial operations on October 10, 2019.

ACR has also started construction of its first renewable energy project under Siguil Hydro Power Corporation, which will operate a 14.5MW run-of-river electricity generating facility located at the Siguil River basin in Maasim, Sarangani. ACR expects commercial operations to begin in 2022. The Company likewise began site development and clearing works for SRPI's 105MW coal-fired power plant project, which could supply power to Zamboanga City and other parts of the Zamboanga Peninsula, with commercial operations expected to begin in 2023.

### **Property Development**

ACR is also engaged in Real Estate Development and Project Management through its subsidiary, Alsons Land Corporation or ALC. ALC continues to enhance its real estate portfolio thru investments in projects with immediate development potential. These include residential, commercial, mixed-use, and township and estate projects that have trading income activities (sale), high value recurring income businesses (rentals), Joint Venture arrangements and Asset Management opportunities.

Launched in November 25, 1994, ALC was involved in the development of Eagle Ridge Residential Estates, and the Eagle Ridge Golf and Country Club, in Cavite. The latter Club boasts of 72 holes in 4 golf courses, each designed by a world-class golf legend.

ACR also entered into a Joint Venture Agreement with Ayala Land Incorporated ( ALI ) to develop a 26-hectare world-class estate in Lanang, Davao City, Mindanao. The estate is set to be transformed into a master-planned, mixed-use community that will include residential low to mid-rise towers, commercial lots, offices, an events venue and a waterside cove with some retail components. A world-class medical facility will soon rise within the estate. The sustainable estate is set to be Davao's prime waterside community, encapsulating a life of fluidity and ease within a vibrant locality and a buoyant economy south of the country; a paramount destination for the best in home, business and lifestyle in Mindanao.

ALC continues to grow its residential business when it embarked on the expansion of its Campo Verde subdivision in Batangas, a joint venture project with Sunfields Realty Development, Inc. The initial project, which is an 11-hectare property located inside the Lima Technology Center, is close to selling out. This project is an hour away from Makati via the South Luzon Expressway and the Southern Tagalog Arterial Road Tollway. Campo Verde offers three (3) distinct Spanish-themed homes that are ideal for young to growing families. The model house choices range from: Condesa, with a lot area of 90 square meters and floor area of 36 square meters; Duquesa, with a lot size of 100 square meters and a floor area of 50 square meters; and Reina, with 120 square meter-lot and a floor area of 80 square meters.

Through ALC, ACR is also developing the Kamanga Agro-Industrial Economic Zone in the Municipality of Maasim, Province of Sarangani, where the power plant of Sarangani Energy is located. This "Ecozone" is accredited with the Philippine Execonomic Zone Authority (PEZA) as an agricultural and light-industry zone. Enterprises will be encouraged to set up their businesses in, or relocate to, this Ecozone to enjoy incentives prescribed by law through the PEZA. Kamanga Agro-Industrial Ecozone Development Corporation (KAIEDC) has successfully closed an agreement in December 2019 for the sale of 28-hectare property to a locator.

### **Other Investments**

In 2007, ACR infused capital of ₱ 195 million in ACR Mining Corporation (ACR Mining), which was acquiring 75% interest in a joint venture between Alsons Development and Investment Corporation (ALDEVINCO), and Southern Exploration Corporation (SECO). This joint venture was organized to explore and develop the Manat mining claims, which are covered by Mineral Production Sharing Agreement (MPSA) No. 094-97-XL up to the year 2022, with an area of 1,547.32 hectares. It is located in the Municipality of Nabunturan, Province of Compostela Valley, and in the Municipality of Maco, Province of Davao del Norte. Previous exploration work identified three mineralized structures: Pagtulian, Katungbuan/Taglayag, and Magas. Detailed work on the Magas Vein Zone revealed an estimated inferred resource of 2.7 million tons containing: 2.8 grams per ton gold, 26 grams per ton silver, 0.09% copper, 0.85% lead, and 1.58% zinc. On May 24, 2015, ACR's Board of Directors declared the shares of ACR Mining as a property dividend, with record date of June 5, 2015. The SEC approved the property dividend on August 11, 2015. The Bureau of Internal Revenue issued authorized the registration of the ACR Mining shares in the names of ACR's shareholders on February 22, 2016.

The Declaration of Mining Project Feasibility was submitted to the Mines and Geosciences Bureau on October 2012. As of today, the Manat MPSA is in exploration phase development.

### **Status of publicly-announced new projects**

1. The second phase of 105MW of the 210 MW Sarangani Energy power plant has started commercial operations on October 10, 2019. The President of the Philippines personally

inaugurated the plant and also attended the launching of the Siguil Hydro Power Corporation's 14.5 MW project. This hydro project is the beginning of ACR's venture into renewable energy projects..

2. The 105MW SRPI power plant in Zamboanga City received its environmental compliance certificate from the Department of Environment and Natural Resources in March 2012. The Company has begun site preparation and clearing works. The total project cost is estimated at ₱16 billion. SRPI is still negotiating with various banks to finance the project. Once in operation, the SRPI coal-fired power plant would be able to service Zamboanga City and other nearby areas.

The Company has no existing patents, trademarks, copyrights, licenses, franchises, concessions and royalty agreements.

### 1. Business segments contribution to revenues

**Table I – Revenue Contribution by Business Segment**

	(Amounts in Thousand PhP)			% to Total		
	2019	2018	2017	2018	2018	2017
Energy and Power	₱6,783,110	₱6,637,810	₱6,494,069	100%	100%	100%
Property Development	12,986	28,461	24,832	0%	0%	0%
	₱6,796,096	₱6,666,271	₱6,518,901	100%	100%	100%

The Company had no income from foreign sources for the past 3 years.

### 2. Competition

A shift in the market forces has prompted a slowdown in sales for the Eagle Ridge Estates. Economic and affordable housing developments of Filinvest, Camella Homes, and Amaia have gained a foothold in the region.

While several power generation companies have either commenced construction of coal-fired power stations or announced plans to build them, Sarangani Energy has secured its position in the market by entering into Power Sales Agreements (PSAs) with various distribution utilities. Having secured the approval of the Energy Regulatory Commission of these PSAs, Sarangani Energy is assured of the market for its capacity.

The diesel power plants of WMPC and MPC are moderately contracted. These plants offer distribution utilities ideal peaking and insurance capacities due to their competitive pricing and proven performance over years of reliable operations. SPPC, on the other hand, has no current PSA, but the Company is exploring opportunities for relocating its engines to other locations. MPC is likewise considering relocating its available unutilized engines to other locations.

### 3. Sources and Availability of Raw Materials and Supplies

SPPC has not renewed Fuel Supply Agreement with Pilipinas Shell Petroleum that expired last September 1, 2019. MPC and WMPC each signed a Fuel Supply Agreement with Phoenix Petroleum Corporation for the supply of approximately 4 to 8 million liters of fuel per month for each plant. MPC's and WMPC's agreement is valid until March 2021.

WMPC and MPC has an agreement with Pilipinas Shell Petroleum Corporation for the supply of its lubricating oil, while SPPC's contract was terminated in 2018.

Wärtsilä Corporation of Finland supplies the engine parts and major maintenance services needed by the diesel plants.

Sarangani Energy Corporation has a fuel supply and transport agreement with Toyota Tsusho Corporation for low sulfur coal, or sub-bituminous coal, which is sourced from Kalimantan, Indonesia with net calorific value of 3,630 to 5,450 KCal per kilogram and its price based on GlobalCoal New Castle Index. The agreement is valid for 10 years from April 29, 2016 until 2026. The company is also procuring low sulfur coal via spot market or short term contracts with flexible pricing options with prices based on Global Coal New Castle Index, Indonesian Coal Index and or Fixed Price arrangements

#### **4. Dependence on a Single or a Few Customers**

WMPC and MPC have secured, or are securing PSAs with various distribution utilities, and are currently moderately contracted. SPPC has no current PSA, but is exploring opportunities for relocating its engines to other locations. Sarangani Energy, on the other hand, has secured 25-year PSAs with the following distribution utilities:

<u>Contracting Party</u>	<u>Contracted Capacity (MW)</u>
South Cotabato Electric Cooperative II, Inc.	70
Iligan Light and Power, Inc.	15
Cagayan Electric Power and Light Company, Inc.	20
Davao del Norte Electric Cooperative, Inc.	15
Davao del Sur Electric Cooperative, Inc.	15
Agusan del Norte Electric Cooperative, Inc.	10
Agusan del Sur Electric Cooperative, Inc.	10
Cotabato Electric Cooperative, Inc.	10
South Cotabato I Electric Cooperative, Inc.	10
Zamboanga del Sur I Electric Cooperative, Inc.	5
Zamboanga del Norte Electric Cooperative, Inc.	5

Alto Power Management Corp. (APMC), a subsidiary of ACR, provides the plant and operation management services to SPPC, WMPC and MPC. Also, APMC International Ltd., a wholly owned subsidiary of APMC, provided operations and maintenance management services to PT Makassar Power Indonesia until April 2016.

The Property Development and other businesses of ACR are not dependent on a single or few customers and the loss of one or a few customers will have no material adverse effect on the Company and its subsidiaries.

#### **5. Effect of Existing or Probable Governmental Regulations on the Business**

Republic Act No. 9136, the Electric Power Industry Reform Act of 2001 (EPIRA), and its implementing rules and regulations (IRR), provide for significant changes in the power sector, which includes, among others:

- a. The unbundling of the generation, transmission, distribution and supply of power and other disposal assets, including its contract with independent power producers and electricity rates;

- b. Creation of a Wholesale Electricity Spot Market (WESM) within one year; and,
- c. Open and nondiscriminatory access to transmission and distribution systems.

The law also requires public listing of not less than 15% of common shares of generation and distribution companies within 5 years from its effectivity. It provides: (i) cross ownership restrictions between transmission and generation companies, and between transmission and distribution companies; and (ii) a cap of 50% on the demand of a distribution utility sourced from an associated company engaged in generation except for contracts entered into prior to the effectivity of the EPIRA; and (iii) specifically relating to generation companies, a cap on the concentration of ownership to only 30% of the installed capacity of the grid and/or 25% of the national installed generating capacity. Based on the assessment of management, the operating subsidiaries have complied with the applicable provisions of the EPIRA and its IRR.

The second package of the tax reform program or the Corporate Income Tax and Incentives Rationalization Act (CITIRA), which is still subject to approvals, aims to rationalize the incentives system, with the hope that foreign investments will match or even surpass the incentives given, allowing net positive benefits to our country. Thus, additional requirements are proposed before a registered entity can avail certain tax incentives, such as the value-added tax (VAT) incentives on importation and domestic purchases.

The CITIRA proposes to grant VAT exemption on importation and VAT zero-rating on domestic purchases of capital equipment and raw materials used in the manufacturing and processing of products and importation of source documents of registered enterprises whose export sales meet the required threshold and are located within the ecozone, freeport, or utilizing customs bonded manufacturing warehouse.

If a registered enterprise's export sales are below the required threshold but is located within an ecozone, freeport, or is utilizing customs bonded manufacturing warehouse, the CITIRA likewise grants VAT exemption on importation and VAT zero-rating on domestic purchases of capital equipment and raw materials used in the manufacturing and processing of products to issue and transmit electronic receipts or sales or commercial invoices through designated electronic channels with a public certification system accredited by the Bureau of Internal Revenue. CITIRA will also reduce corporate income tax rate to 20 percent by 2029, from 30 percent at present. Based on management assessment, the reduction of income tax rates will provide positive impact to existing businesses and attract foreign investors to Kamanga Agro-Industrial Ecozone.

## **6. Research and Development**

ACR and its subsidiaries do not allocate specific amounts or a fixed percentage for research and development. All research, if any, are done by its subsidiaries and affiliates on a per project basis. The allocation for such activities may vary depending on the nature of the project.

## **7. Employees**

As of December 31, 2019, ACR and its 50% or more directly or indirectly-owned subsidiaries had a manpower complement of 481 employees, broken down as follows: 15 executives, 20 managers, 120 supervisors and 326 associates. The Company believes that changes in manpower complement will be minimal for the next twelve months. The employees of the Company and its subsidiaries are not unionized.

## **8. Bankruptcy Proceedings**

The Company has not contemplated any plan for bankruptcy, receivership or similar proceedings. Neither is there any material reclassification, merger, consolidation nor sale of any significant amount of assets in the ordinary course of business.

## **9. Cost and Effect of Compliance with Environmental Laws**

ACR engages only in projects and activities that comply with environmental laws. Its power subsidiaries follow the regulations embodied in the EPIRA. All its plants meet the exhaust emission standards set by Department of Environment and Natural Resources (DENR). Compliance with existing environmental laws has corresponding costs, which include expenditures for the following:

- a. renewal fees for the DENR permit/license to operate;
- b. exhaust emission tests and monitoring (costs covered by the environmental guarantee fund);
- c. environmental monitoring fund (SPPC ₱500,000 and WMPC ₱598,000); and,
- d. environmental guaranty fund (SPPC ₱500,000 and WMPC ₱508,000).

The Company meets all governmental, environmental, health and safety requirements. The Company's operating units are regularly inspected and have not experienced significant governmental, environment, health or safety problems. For the past three years, the total amounts spent in complying with environmental laws by the subsidiaries are as follows (1) ₱2,022,841 in 2019; (2) ₱2,593,707 in 2018; and, (3) ₱2,940,145 in 2017

## **10. Investment Acquisition**

On October 9, 2015, the Board of Directors approved the subscription to non-voting preferred shares in ALDEVINCO amounting to ₱2.2 billion. The preferred shares are entitled to receive, out of the unrestricted retained earnings of the ALDEVINCO, cumulative dividends at the rate of 4% per annum of the par value of the preferred shares, before any dividends shall be paid to holders of the common shares. In 2018, ALDEVINCO declared dividends amounting to ₱264 million covering the years 2016 to 2018.

On August 27, 2019, the Board of Indophil Resources Phils, Inc. (IRPI) approved the equity call to all existing shareholders amounting to ₱52.50 per share. On September 30, 2019, ACR participated and paid IRPI ₱2,977,452 for the additional 56,715 common shares.

## **Item 2. PROPERTIES**

### **DESCRIPTION OF PROPERTIES**

The Company's energy and power operations are located in three different sites. WMPC's power plant is in a 9-hectare property in Sitio Malasugat, Sangali, Zamboanga City, while SPPC's plant is situated in a 16-hectare property located in Alabel, Sarangani Province, which is 13 kilometers east of General Santos City. The WMPC and SPPC properties are fully owned by the above-mentioned subsidiaries of ACR. CHC's power plants, which are operated by MPC, are on an 8-hectare property in the Municipality of Lugait, Misamis Oriental and in the City of Iligan. These power plants were acquired from the City of Iligan by CHC on February 27, 2013. The lots on which the power plants of CHC are located were acquired by MPC from ALDEVINCO in November 21, 2013. The Sarangani



Energy coal-fired power plants are located in Maasim, Sarangani Province. The real estate assets of KAIEDC are located in Maasim Sarangani Province.

The power assets were used as collateral in various loans, specifically: (1) CHC power plant and the real estate owned by MPC, were used as collateral for loans for the rehabilitation of the MPC power plants; and (2) Sarangani Energy's real estate and coal-fired power plants are mortgaged to its various lender banks.

ALC, the Company's property development company, has properties in Batangas, Cabuyao in Laguna, and along Don Chino Roces Avenue (formerly Pasong Tamo Extension), Makati City. Its Batangas property currently has residential developments. In addition, ALC owns the property, including the improvement, Alsons Building, where the Company maintains its corporate headquarters.

The land development of Azuela Cove is located in Lanang Davao City.

All of these properties are in good condition.

**Table II – Property, Plant and Equipment (consolidated)**

(Amounts in Thousand PhP)	December 31, 2019	December 31, 2018
Main Engine of Power Plant Structures and Others	<b>₱30,678,044</b>	₱19,183,589
Plant Mechanical, Switchyard and Desulfurization Equipment	<b>7,239,101</b>	4,649,048
Land, Buildings and Leasehold Improvements	<b>574,049</b>	554,953
Machinery and Other equipment	<b>1,398,804</b>	915,938
Right of Use	<b>810,204</b>	-
Construction in Progress	<b>35,274</b>	12,425,399
Total	<b>40,735,476</b>	37,728,927
Less: Accumulated Depreciation and Amortization	<b>(11,638,510)</b>	(10,591,286)
<b>Net Book Value</b>	<b>₱29,096,966</b>	₱27,137,641

### Item 3. RISKS

Through prudent management and cautious investment decisions, ACR constantly strives to minimize risks that can weaken its financial position. However, certain risks are inherent to specific industries and are not within the direct control of the Company.

Some of the risks that the Company and its subsidiaries may be exposed to are the following:

#### 1. Foreign Exchange Rate Fluctuations

The Company's exposure is primarily associated with fluctuations in the value of the Peso against the U.S. Dollar and other foreign currencies. The spare parts and insurance of SPPC and WMPC are denominated in U.S. Dollars. The Company keeps a portion of its short-term investments in foreign currency to serve as a hedge in foreign exchange fluctuations.

## **2. Interest Rate Risks**

The Company's interest rate risk management policy centers on reducing overall interest expense and on minimizing other costs of borrowing. Changes in market interest rates would have material impact on the Company's interest-bearing obligations, specifically on those with floating interest rates.

ACR and its subsidiaries manage their interest rate risks by leveraging its debt portfolio and by optimizing a mix of fixed and variable interest rates. Other measures, are employed to avert risk include pre-payment of debts and re-financing of loans. Moreover, utilization of existing credit facilities has been kept to a minimum.

## **3. Liquidity Risks**

The Company and its subsidiaries carefully manage their liquidity position to be able to finance their working capital, debt service and capital expenditure requirements. Sufficient levels of cash and short-term money market placements are maintained to meet maturing obligations. Management regularly monitors and forecasts its cash commitments, matches debt payments with cash generated from the assets being financed, and negotiates with creditors on possible restructuring or re-financing of existing loans to avail of better terms and conditions.

## **4. Credit Risks**

ACR and subsidiaries transact only with companies and institutions that are in a sound financial position and have demonstrated good credit standing. The power companies' receivables are from various electric cooperatives and the collection of which has been current and up to-date except for SPPC's long-outstanding receivables from NPC amounting to ₱123 million. These receivables pertain to the portion of accounts that was disputed by and was decided upon by the Energy Regulation Commission (ERC) on June 3, 2013 in favor of SPPC. On July 23, 2013, NPC elevated the case to the Court of Appeals (CA).

On August 17, 2015, CA denied NPC's motion for reconsideration and decided in favor of SPPC. On September 18, 2015, NPC elevated the case with the Supreme Court (SC). On July 4, 2016, SC rendered a decision holding NPC liable to pay SPPC for the additional 5 MW from 2005 to 2010 which affirmed ERC's requirement for both parties to reconcile settlement amount. On November 23, 2016, SC issued its decision to deny the motion for reconsideration submitted by NPC and to render the case with finality. On October 19, 2018, SPPC filed an Urgent Motion to Resolve the pending issue on the NPC's liability for interest, and SPPC's motion for issuance of writ of execution against NPC for the payment of the principal amounts owed by NPC to SPPC.

On October 19, 2018, SPPC filed an Urgent Motion to Resolve the pending issue on the NPC's liability for interest, and SPPC's motion for issuance of writ of execution against NPC for the payment of the principal amounts owed by NPC to SPPC.

On September 6, 2019, SPPC filed with ERC a Manifestation with Urgent Motion to Resolve, praying that the commission: (1) resolve and grant SPPC's Omnibus Motion for Issuance of Writ of Execution and Notice of Garnishment dated July 18, 2018; and (2) resolve the issue of NPC's liability for interest in favor of SPPC under the Energy Conversion Agreement.

On December 4, 2019, while awaiting the ERC's resolution on SPPC's motion, SPPC's Executive Vice President, Tirso G. Santillan, wrote a letter to the NPC stating that "SPPC agreed

to collect the principal amount of ₱68.64 million and US\$5.77 million, and waive the interests amounting to ₱52.98 million and US\$3.43 million.”

On December 9, 2019, the NPC, through its president and CEO Pio J. Benavidez, signified its agreement to SPPC’s waiver of its claim of interest.

On December 27, 2019, SPPC filed with the ERC an Omnibus Motion to (a) Resolve and (b) Withdraw Claim for Interest. On the other hand, Receivables of the property companies come from installment sales of industrial/residential lots and housing units.

Receivable balances are monitored regularly and allowance provisions are reviewed to ensure limited exposure to bad debts.

Further discussion on the Company’s financial risk management objectives and policies is contained in Note 31 of the Consolidated Financial Statements.

#### **Item 4. LEGAL PROCEEDINGS**

SPPC has a long-outstanding receivable from NPC, which NPC disputed. The parties brought their dispute to the ERC for arbitration. On June 3, 2013, ERC decided in favor of SPPC, and NPC appealed the ERC decision to the Court of Appeals (CA), which affirmed the ERC decision. On August 17, 2015, the CA denied NPC’s motion for reconsideration. On September 18, 2015, NPC petitioned the Supreme Court (SC) to review the ERC and CA decisions. On July 16, 2016, the SC rendered a decision holding NPC liable to pay SPPC for the capacity and other fees arising from the additional 5 MW nominated by SPPC from 2005 to 2010. On November 23, 2016, the SC denied NPC’s motion for reconsideration, rendering the ERC decision final.

Some of the subsidiaries or affiliates of the Company are also from time to time involved in routine litigation as well as various legal actions incidental to their respective operations. However, in the opinion of the Company’s management, none of these legal matters, in which its subsidiaries or affiliates are involved, will be material to the Company’s financial condition and results of operations. Refer to Note 34 of the Consolidated Notes to Financial Statements attached to this report for detailed description.

#### **Item 5. SUBMISSION of MATTERS to a VOTE of SECURITY HOLDERS**

During the calendar year covered by this report, no business matter was submitted to a vote of security holders through solicitation of proxies or otherwise.

### **PART II - OPERATIONAL AND FINANCIAL INFORMATION**

#### **Item 6. MARKET FOR REGISTRANT’S COMMON EQUITY and RELATED STOCKHOLDER MATTERS**

##### **1. Market Information**

All the common shares of the company are listed in the Philippine Stock Exchange.

The following are the high and low market prices of the Company’s shares for the past three years:

**Table 1 – Market Price of ACR Shares**

		First Quarter	Second Quarter	Third Quarter	Fourth Quarter
2020	High Low	₱1.37 0.61			
2019	High Low	1.58 1.28	₱1.48 1.36	₱1.42 1.29	1.34 1.21
2018	High Low	1.38 1.23	1.35 1.18	1.30 1.14	1.31 1.22
2017	High Low	1.59 1.23	1.94 1.35	1.48 1.35	1.43 1.34

Stock Price as of April 30, 2020 was at ₱0.92 per share.

## 2. Stockholders

As of December 31, 2019, ACR has 6,291,500,000 shares outstanding held by 453 stockholders, inclusive of the two (2) accounts under PCD Nominee Corporation. The list of the top twenty stockholders of the Company as recorded by Prime Stock Transfer Services, Inc., the Company's stock transfer agent, are as follows:

**Table 1 – Top Twenty (20) Stockholders**

	<u>Name</u>	<u>No. of Shares Held</u>	<u>% to Total</u>
1.	Alsons Corporation	2,592,524,072	41.21%
2.	Alsons Power Holdings Corp.	1,249,999,599	19.87%
3.	Alsons Development and Investment Corp.	1,188,524,026	18.89%
4.	PCD Nominee Corporation (Filipino)	1,154,555,050	18.35%
5.	PCD Nominee Corporation (Non-Filipino)	74,874,001	1.19%
6.	SEC Account No. 2 fao various Customers of Guoco	2,090,000	0.03%
7.	All Asia Capital Trust & Investment Division	1,830,000	0.03%
8.	EBC Securities Corporation	1,030,000	0.02%
9.	Crisostomo, Emily A.	1,000,000	0.02%
9.	Cruz, Felipe Jr. A.	1,000,000	0.02%
9.	Nora T. Go	1,000,000	0.02%
10.	First Integrated Capital Securities, Inc. (555300)	900,000	0.01%
11.	First Integrated Capital Securities, Inc. (555200)	795,000	0.01%
12.	Ansaldo, Godinez & Co., Inc.	755,000	0.01%
13.	George Go	750,010	0.01%
14.	AACTC FAO Trinity Investment	680,000	0.01%
15.	EstebanYau	600,000	0.01%
16.	Roy C. Tia	513,000	0.01%
17.	S. J. Roxas & Co., Inc.	507,000	0.01%
18.	Antonio Co	500,000	0.01%
18.	Mendoza, Marites &/or Alberto Mendoza	500,000	0.01%
18.	Roqueza, Ricardo S.	500,000	0.01%
18.	San Jose, Roberto V.	500,000	0.01%
18.	Vega, Luis &/or Eliseo C. Ocampo, Jr.	500,000	0.01%

19.	Mendoza Albert G. &/or Jeannie C. Mendoza	450,000	0.01%
20	Guillermo F. Gili, Jr.	430,000	0.01%
<b>Total shares of top 20</b>		<b>6,277,306,758</b>	<b>99.77%</b>

### 3. Dividends

Declaration of dividends is subject to approval by the Board of Directors.

The historical dividend declarations are follows:

Year	Date of Declaration	Amount	Per Share	Date of Record	Date of Payment
2019	May 30, 2019	₱125,830,000	₱0.020	June 30, 2019	July 24, 2019
2018	May 24, 2018	230,894,000	0.036	June 30, 2018	July 25, 2018
2017	May 25, 2017	100,664,000	0.016	June 30, 2017	July 25, 2017

Dividends on preferred shares amounting to ₱4 million in 2019, 2018 and 2017 were applied against the Company's subscriptions receivable from Alsons Corporation.

Management continuously endeavors to increase ACR's share value through new projects and expansion programs while at the same time provide yearly dividends to its shareholders. On June 8, 2011, the Board of Directors adopted a dividend policy of annually declaring dividends from 20% of the previous year's un-appropriated retained earnings.

### 4. Sales of Unregistered Securities Within the Last Two (2) Years

There are no other securities sold for cash by the Company within the last two (2) years that were not registered under the Securities Regulation Code.

## Item 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OR PLAN OF OPERATION

### REVIEW OF CURRENT YEAR 2019 vs. 2018 OPERATIONS

Highlights of the Company's financial performance are as follows:

#### 1. Revenues and Profitability

ACR and Subsidiaries posted a slight increase in its consolidated revenues during the year at ₱6,796 million, a 2% improvement from the ₱6,666 million reported in the previous year. This improvement was due mainly to SEC 2's commercial operations which started on October 10, 2019. It generated 186,609 megawatts of power during the year.

Cost of services decreased by 9% at ₱4,237 million from ₱4,673 million in 2018. The decrease was due mainly to the lower cost of fuel caused by lower energy dispatched by the diesel plants and the delay in SEC 2's commercial operations.

General and administrative expenses increased by 23% at ₱598 million from ₱487 million in 2018. The increase was due mainly to the expenses recognized by SEC 2 as well as those of Siguil Hydro Power Corporation which began construction in the 3<sup>rd</sup> quarter of 2019 and expected commercial operations by the first half of 2022. Operating profit also improved by 31% at ₱1,958 million from ₱1,499 million reported in the previous year.

Earnings before interest, taxes, depreciation and amortization (EBITDA) improved from ₱2,698 million to ₱3,081 million this year. The EBITDA margin is also higher at 45% this year versus the 40% earned in 2018.

Meanwhile, finance charges decreased by 9% from ₱1,186 million to ₱1,081 million. The partial pre-payment by ACR Parent debt in April 2018 amounting to P1billion and amortization of SEC 1 project loans, caused the decrease in interest expense. The interest incurred for SEC 2 was capitalized as part of project cost up to the time the Company declared commercial operations.

The Company realized a negative Other Income of ₱25 million from ₱294 million in 2018. The Company recognized a dividend from its investment in preferred shares amounting to ₱264 million in 2018 which is partly offset by higher equity in net earnings from an associate of ₱71 million in 2019, from ₱33 million last year.

As a result of the foregoing, the consolidated net income posted a better performance of ₱974 million in 2019, 73% better than the ₱563 million in 2018. The income attributable to Parent is 58% better from last year's ₱94 million to ₱148 million this year and posting an earnings per share of ₱0.023 from ₱0.014 last year.

## **2. Financial Position**

As of December 31, 2019, total resources of ACR and Subsidiaries remained strong at ₱45,609 million, increased by 5% versus the ₱43,492 million level reported in 2018.

Current assets posted a slight decrease, from ₱8,904 million to ₱8,840 million. The decrease came largely from the use of cash and cash equivalents for the construction and completion of SEC 2. Siguil Hydro Power Plant likewise began construction during the year and Company made advances to its EPC Contractor during the year. Noncurrent assets rose by 6%, mostly on the capital expenditures incurred for the completion of the construction of SEC 2 and Siguil.

Current liabilities increased significantly by 92% from ₱6,280 million to ₱12,051 million, largely on account of higher current portion of long-term debt. The first tranche of Company's Fixed Rate Corporate Note (FXCN) which will mature in December 2020 has been recognized as current during the year. The Company is currently working on refinancing this maturing obligation. Noncurrent liabilities, on the other hand, decreased by 18% due to the reclassification of above maturing obligation and partly offset by the recognition of additional decommissioning liability related to SEC 2.

ACR posted a current ratio of 0.73:1 for 2019 as compared to 1.42:1 in 2018 mainly due to the reclassification of its maturing obligation. The Company is already in discussion with the existing lenders for the refinancing and majority of them have obtained management clearance to refinance the same.

Net cash inflows from operating activities remain stable and continue to be the source of payment of maturing obligations and trade payables. Net cash used for investing activities decreased from ₱5,310 million to ₱3,083 million this year due mainly to the completion of SEC 2. Net cash

outflows from financing activities amounted to ₱33 million in 2019 largely due to the lower loan drawdown amounting to ₱5,324 versus the ₱9,821 million in 2018. The total available funds of ₱7,890 million in 2019, from which ₱2,876 were used for power plant project construction during the year. The net cash balance after accounting for the above changes reached ₱2,815 million, 19% lower than the ₱3,475 million in the previous year.

### 3. Key Performance Indicators (KPI)

The Company's operations for the year ended December 31, 2019 showed stable gross income at ₱2,556 million compared to last year's ₱1,986 million. KPI of the Company are as follows: (Amounts in million pesos, except ratios).

**Table 2 – Comparative KPIs (2019 Vs. 2018)**

Financial KPI	Definition	Calendar Year	
		2019	2018
<b>Profitability</b>			
Revenues		₱6,796	₱6,666
EBITDA		₱3,081	₱2,698
EBITDA Margin	EBITDA ÷ Net Sales	45%	40%
Return on Equity	Net Income ÷ Total Stockholders' Equity	7%	4%
Net Earnings Attributable To Equity Holders		₱148	₱94
<b>Efficiency</b>			
Operating Expense Ratio	Operating Expenses ÷ Gross Operating Income	29%	32%
<b>Liquidity</b>			
Net Debt Coverage	Cash Flow from Operating Activities ÷ Net Financial Debt	10%	13%
Debt-To-Equity Ratio		2.82:1	2.62:1
Current Ratio	Current Assets ÷ Current Liabilities	0.73:1	1.42:1

#### **Profitability**

The earnings before interest, taxes, depreciation and amortization (EBITDA) of the Company increased from ₱2,698 million to ₱3,081 million in 2019 due mainly to the improved performances of SEC and WMPC. EBITDA Margin was also up from 40% in the previous year to 45% this year as a result of higher income.

Return on equity (ROE) was also up from last year's 4% to 8% this year while the net income attributable to the equity holders of the parent increased significantly to ₱148 million from last

year's ₱94 million. The second section of SEC started commercial operations on October 10, 2019 contributing ₱1,046 million in total revenues during the year.

### **Efficiency**

The Company's operating expense ratio decreased to 29% in 2019 from 32% in 2018. The continued operating performance of the Company's operations led to the decrease in operating expense ratio.

### **Liquidity**

As a result of additional project loan drawdown for the completion of Sarangani Energy section 2 during the year, financial debt increased by 8%. Consequently, net debt coverage ratio decreased to 11% from last year's 13%. Current ratio on the other hand decreased to 0.73:1 from last year's 1.42:1. The first tranche of Company's Five-Year Fixed Rate Corporate Note (FXCN) which matures on December 2020 has been recognized as current during the year. The Company is currently working on the refinancing of this maturing obligation and majority of the noteholders have signified their concurrence.

## **DESCRIPTION OF KEY PERFORMANCE INDICATORS:**

1. **Revenues.** Revenue is the amount of money that the Company and its subsidiaries receive arising from their business activities and is presented in the top line of the consolidated statements of income. The present revenue drivers of the Company are: (i) Energy and power; and (ii) Real estate. Revenue growth is one of the most important factors that management and investors use in determining the potential future stock price of a company and is closely tied to the earnings power for both the near and long-term timeframes. Revenue growth also aids management in making sound investment decisions.
2. **EBITDA.** The Company computes EBITDA as earnings before extra-ordinary items, net finance expense, income tax, depreciation, and amortization. It provides management and investors with a tool for determining the ability of the Company to generate cash from operations to cover financial charges and income taxes. It is also a measure to evaluate the Company's ability to service its debts, to finance its capital expenditure and working capital requirements.
3. **Net Earnings Attributable to Equity Holders of Parent.** Net income attributable to shareholders is one more step down from net income on the consolidated statements of income. The net income of a company is all of the revenues minus all of the expenses including interest expenses and taxes. Net income attributable to shareholders is the net income minus the non-controlling interests. This aids management and investors in identifying company's profit allocated to each outstanding share.
4. **Debt-to-Equity Ratio.** This measures the Company's financial leverage calculated by dividing its total liabilities by stockholders' equity. It indicates what proportion of equity and debt the company is using to finance its assets.
5. **Current Ratio.** Current ratio is a measurement of liquidity computed by dividing current assets by current liabilities. It is an indicator of the Company's ability to meet its current maturing obligations. The higher the ratio, the more liquid the Company presents.



### Significant Disclosures

Please refer to **Annex D** of this report for the significant disclosures made by the Company during the year. Other than those mentioned in Annex D and the disclosures made by the Company in its Audited Consolidated Financial Statements, it is not aware of the following:

1. Unusual items that materially affect the Company's assets, liabilities, equity, net income or cash flows because of their nature, size or incidence;
2. Issuance and repurchase of equity securities;
3. Segment revenues and segment results for business segments and geographical segments;
4. Changes in contingent liabilities or contingent assets since the annual balance sheet date;
5. Existence of material contingencies and other transaction events that are material to an understanding of the current period;
6. Known trends, commitments, events and uncertainties that will result in or likely to decrease its liquidity in a material way. ACR does not anticipate having, within the next twelve (12) months, any cash flow or liquidity problem nor does it anticipate any default or breach of any of its existing notes, loans, other indebtedness or financial arrangements requiring it to make payments. With the improvement in the Company's operating performance, ACR expects to meet all financial loan covenants for the next interim period;
7. Events that will trigger direct or contingent material financial obligations to the Company;
8. Material off-balance sheet transactions, arrangements, obligations (direct or contingent), and other relationships of the Company with unconsolidated entities or other persons created during the year;
9. Known trends, events or uncertainties that have had or that are reasonably expected to have a material favorable impact on net sales, revenues, net income from continuing operations;
10. Significant elements of income or loss that did not arise from the Company's continuing operations;
11. Material events subsequent to the end of the reporting period that have not been reflected in the consolidated financial statements;
12. Material changes in the composition of the Company, including any business combination, acquisition or disposal of subsidiaries and long-term investments and discontinuing operations.

### Notes to Consolidated Financial Statements

#### *Accounting Policies and Principles*

The consolidated financial statements of ACR and its Subsidiaries for the years ended December 31, 2019 and 2018 are presented in accordance with Philippine Financial Reporting Standards (PFRS) applied on a consistent basis.

*Seasonality Aspects of the Business*

The operations of ACR and its subsidiaries were not affected by seasonality or cyclicity.

**Material Changes in Consolidated Balance Sheet Accounts by 5% or More**

1. Cash and cash equivalents, 19% Decrease and Short-term investments, 31% decrease

The decrease in cash and cash equivalents (2019: P2,815 million vs. 2018: P3,475 million) was due to the usage of cash for the completion of the SEC 2 power plant as well as the on-going construction of Siguil Hydro Power Plant. SEC 2 has started commercial operations on October 10 while Siguil is expected to be completed and to commence commercial operations in 2022.

2. Trade and other receivables, 22% Increase

The increase was due to the timing of collection of trade receivables during the year.

3. Spare parts and supplies, 6% decrease

The decline was due mainly to the lower coal consumption of Sarangani Energy Corporation during the year.

4. Prepaid expenses and other current assets, 12% Increase

The increase was due to the higher interest reserve account of Sarangani Energy Corporation required for its loan facility used for the construction of SEC 2.

5. Advances to Constructors, 306% Increase

The increase was due to the additional advances made during the year for our first renewable energy project that began construction in 2019 and target completion in 2022.

6. Property, plant and equipment, 7% Increase

The increase in is due mainly to expenditures incurred for the completion of SEC 2 power plant.

7. Contract Asset, 5% Increase

The Contract asset represents asset recognized though the application of PFRS 15. This Accounting Standards simply recognizes the revenues of SEC relative to its Capital Recovery Fee equally over the life of its PSA. Thus, applying the average method in calculating the CRF Revenue. The increment is presented as Contract Asset.

8. Deferred Financing Cost, 100% Decrease

The decrease was due to reclassification of SEC 2 financing costs into property plant and equipment account.

9. Deferred Tax Assets, 75% Increase

The increase is due largely to the deferred tax impact of the additional recognized contract assets.

10. Accounts payable and other current liabilities, 4% Decrease

The decrease was due mainly to the payment of dividend declared by Sarangani Energy in the previous year.

11. Loans payable and short-term notes payable, 285% Increase

The short-term notes payable represents negotiable commercial paper registered with the Securities and Exchange Commission of the Company, which security is listed in the Philippine Dealing System (PDEX). The increase was due mainly to the additional issuance during the year.

12. Income tax payable, 571% Increase

The increase was due to the higher taxable income earned during the year.

13. Lease Liability, 100% Increase

The increase was due to the adoption of PFRS 16 on Leases. The standard provides a single lessee accounting model, requiring lessees to recognize the assets and liabilities for all leases unless the lease term is 12 months or less or the underlying asset has a low value. The corresponding asset – right of use is included as part of property plant and equipment amounting to ₱24 million net of accumulated depreciation.

14. Current Portion of Long-term Debt, 397% Increase  
Long-term debts – net of Current portion, 19% Decrease

The first tranche of Company's Five-Year Fixed Rate Corporate Note (FXCN) which matures on December 2020 has been recognized as current during the year. The Company is currently working on the refinancing of this maturing obligation and majority of the noteholders have signified their concurrence.

15. Deferred Tax Liabilities, 16% Decrease

The decline in deferred tax liabilities was due to the increase capitalized interest of the SEC 2 Power Plant which is under construction during the year.

## REVIEW OF CURRENT YEAR 2018 vs. 2017 OPERATIONS

Highlights of the Company's financial performance are as follows:

### Revenues and Profitability

ACR and Subsidiaries posted a slight increase in its consolidated revenues during the year at ₱6,666 million, a 2% improvement from the ₱6,519 million reported in the previous year. This improvement was due mainly to Sarangani Energy Section 1 operations.

Cost of services also increased by 2% at ₱4,673 million from ₱4,574 million in 2016. The increase was due mainly to the higher energy dispatched of SEC 1 generating 521,304 megawatts of power from last years' 489,029 megawatts due to higher utilization this year.

General and administrative expenses decreased by 13% at ₱487 million from ₱562 million in 2017. The decline was due to one time expenses recognized by SEC 1 in 2017 for prior year's administrative charges. Operating profit also improved 9% at ₱1,499 million from ₱1,374 million reported in the previous year.

Earnings before interest, taxes, depreciation and amortization (EBITDA) improved from ₱2,363 million to ₱2,698 million this year. The EBITDA margin is higher at 40% this year versus the 36% earned in 2017.

Meanwhile, finance charges slightly decreased by 1% from ₱1,200 million to ₱1,186 million. The partial pre-payment by ACR Parent debt in April 2018 amounting to P1billion, caused the slight decrease in interest expense. The interest incurred for SEC 2 was capitalized as part of project cost.

On the other hand, the Company realized an other income of ₱326 million from ₱70 million in 2017. The Company recognized a dividend from its investment in preferred shares amounting to ₱264 million and equity in net earnings from an associate of ₱33 million during the year.

As a result of the foregoing, the consolidated net income jumped 444% from last year's ₱103 million to ₱563 million. The income attributable to Parent is turnaround from a loss of ₱21 million in the previous year to an income of ₱94 million this year and posting an earnings per share of ₱0.015 from (₱0.004) last year.

### **Financial Position**

As of December 31, 2018, total resources of ACR and Subsidiaries remained strong at ₱43,492 million, increased by 14% versus the ₱38,237 million level reported in 2017.

Current assets posted a 4% decrease, from ₱9,257 million to ₱8,904 million. The decrease came largely from the use of cash and cash equivalents for the construction of SEC 2 and partial prepayment of the the Company's Fixed Rate Corporate Note (FXCN). Noncurrent assets rose by 19%, mostly on the capital expenditures incurred for the completion of the second phase of Sarangani Energy's power plant and the contract asset resulting from the application of Philippine Financial Reporting Standards 15 wherein revenues of Sarangani Energy should be is recognized over time based on contract period (straight-line basis). The details of this are disclosed in our Notes to Financial Statements.

Current liabilities also increased by 12% from ₱5,590 million to ₱6,280 million, largely on account of higher accounts payable and accrued expenses. Noncurrent liabilities increase by 20%, due to the additional drawdown of project loan for the second phase of Sarangani Energy's power plant.

ACR's balance sheet remained strong with a current ratio at 1.42:1 in 2018 versus the 1.66:1 level in 2017, while its debt-to-equity ratio increased at 2.03:1 from 1.79:1, due to availment of additional debts for SEC 2 power plant.

Net cash inflows from operating activities remain stable and continue to be the source of payment of maturing obligations and trade payables. Net cash used for investing activities increased significantly from ₱1,050 million to ₱5,212 million this year due mainly to the construction of SEC 2. Together

with net cash inflows from financing activities amounting to ₱1,738 million, largely from loan availments, available funds totaled ₱11,117 million in 2018, from which ₱5,534 were used for power plant project construction during the year. The net cash balance after accounting for the above changes reached ₱3,475 million, 21% lower than the ₱4,384 million in the previous year.

### Key Performance Indicators (KPI)

The Company's operations for the year ended December 31, 2018 showed stable gross income at ₱1,498 million compared to last year's ₱3,74 million. KPI of the Company are as follows: (Amounts in million pesos, except ratios).

**Table 3 – Comparative KPIs (2018 Vs. 2017)**

Financial KPI	Definition	Calendar Year	
		2018	2017
<b>Profitability</b>			
Revenues		₱6,666	₱6,519
EBITDA		₱2,695	₱2,325
EBITDA Margin	EBITDA ÷ Net Sales	40%	36%
Return on Equity	Net Income ÷ Total Stockholders' Equity	4%	1%
Net Earnings Attributable To Equity Holders		₱94	(₱21)
<b>Efficiency</b>			
Operating Expense Ratio	Operating Expenses ÷ Gross Operating Income	32%	41%
<b>Liquidity</b>			
Net Debt Coverage	Cash Flow from Operating Activities ÷ Net Financial Debt	13%	15%
Debt-To-Equity Ratio		2.62:1	1.74:1
Current Ratio	Current Assets ÷ Current Liabilities	1.42:1	1.66:1

### Profitability

The earnings before interest, taxes, depreciation and amortization (EBITDA) of the Company increased from ₱2,325 million to ₱2,695 million in 2018 due mainly to higher utilization of SEC 1. EBITDA Margin was also up from 36% in the previous year to 40% this year as a result of higher income.

Return on equity (ROE) was also up from last year's 1% to 4% this year while the net income attributable to the equity holders of the parent was a turnaround at ₱94 million from a loss of ₱21 million in 2017. The loss in 2017 was attributable to the higher finance charges availed for the

project loan of SEC 1 and the lower performance of the diesel plants. The Company is currently exploring opportunities on how its diesel assets are best utilized.

#### **Efficiency**

The Company's operating expense ratio decreased to 32% in 2018 from 41% in 2017. The last year's recognition of a non-recurring administrative cost resulted to a higher general and administrative expenses in 2017.

#### **Liquidity**

As a result of additional project loan for the construction of Sarangani 2 during the year, financial debt increased by 18%. Consequently, net debt coverage decreased to 13% from last year's 15%. Current ratio on the other hand decreased to 1.42:1 from last year's 1.66:1 due largely to the higher accounts payable and accrued expenses in 2018.

### **Notes to Consolidated Financial Statements**

#### *Accounting Policies and Principles*

The consolidated financial statements of ACR for the years ended December 31, 2018 and 2017 are presented in accordance with PFRS applied on a consistent basis.

#### **Material Changes in Consolidated Balance Sheet Accounts by 5% or More**

1. **Cash and cash equivalents, 21% Decrease**

The decrease in cash and cash equivalents (2018: ₱3,474 million vs. 2017: ₱4,384 million) was due to the usage of cash for partial pre-payment of Parent Company's long-term debt in April 2018.

2. **Trade and other receivables, 4% Increase**

The increase was due to the timing of collection of trade receivables during the year..

3. **Prepaid expenses and other current assets, 59% Increase**

The increase was due to the higher interest reserve account of Sarangani Energy Corporataion required for its loan facility used for the construction of SEC 2.

4. **Advances to Constructors, 100% Increase**

The increase was advances for the upgrade of transmission Line for SEC 2. The advances will be applied against future future payments.

5. **Property, plant and equipment, 19% Increase**

The increase in is due mainly to expenditures incurred for the construction of SEC 2 power plant.

6. **Equity instruments designated through fair value other than comprehensive income, 100% Increase**

The increase is a change in classification from AFS financial assets in 2017 to the above account in compliance with Accounting Standards.

7. Contract Asset, 100% Increase

The Contract asset represents asset recognized through the application of PFRS 15. This Accounting Standards simply recognizes the revenues of SEC relative to its Capital Recovery Fee equally over the life of its PSA. Thus, applying the average method in calculating the CRF Revenue. The increment is presented as Contract Asset.

8. Deferred Tax Assets, 22% Increase

The increase is due largely to the deferred tax impact of the recognized contract assets.

9. Other Noncurrent Assets, 18% Increase.

The increase was due to the additional deferred project expenses recognized by SRPI and Siguil projects.

10. Accounts payable and other current liabilities, 25% Increase

The increase was due mainly to the unpaid dividend declared by Sarangani Energy in 2018 payable in 2019.

11. Loans payable, 64% Decrease

The decrease was due the settlements of short-term working capital facility of ACR Parent, SPPC and WMPC during the year.

12. Short-term Notes Payable, 100% Increase.

The short-term notes payable represents ₱ 100 million negotiable commercial paper registered with the Securities and Exchange Commission of the Company, which security is listed in the Philippine Dealing System (PDEX). The first issuance is part of the first tranche of ₱ 1.5 billion of commercial paper.

13. Income tax payable, 50% Decrease

The decrease was due to the lower taxable income earned during the year.

14. Current Portion of Long-term Debt, 34% Increase  
Long-term debt-net of Current Portion, 21% Increase

The increase in long-term debt was due to additional loan drawdown for the construction of SEC 2 Power Plant. While the maturing principal of the project loan availed for SEC 1 caused the 34% increase in current portion of long-term debt.

15. Deferred Tax Liabilities, 15% Increase

The incline in deferred tax liabilities was due to the increase capitalized interest of the SEC 2 Power Plant which is under construction during the year.

## Item 8. FINANCIAL STATEMENTS

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

## Item 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

1. SyCip Gorres Velayo & Co. (SGV) is the Company's external auditors for the last three fiscal years. SGV has not expressed any intention to resign as the Company's principal public accountant nor has it indicated any hesitance to accept re-election after the completion of their last audit.
2. In compliance with SEC Memorandum Circular No. 8, Series of 2003 on the rotation of external auditors, SGV's previous engagement partner was replaced in 2014.
3. Fees for the years ended December 31, 2019 and 2018 were ₱550,000 for each year. The above fees are for the audit of the Company's annual financial statements or services normally provided in connection with statutory and regulatory filings or engagements for 2019 and 2018. The fees and services were approved by the Audit, Risk Oversight, and Related Party Transaction Committee (Audit Committee) in compliance with the Code of Corporate Governance for Publicly Listed Companies.

The other fees billed by SGV pertain to an engagement of SGV in 2018 to conduct a tax seminar exclusively for the Group on the Tax Reform for Acceleration and Inclusion (TRAIN). For this separate engagement, SGV billed the Company ₱112,000 as professional fee, inclusive of any applicable taxes.

4. There have been no disagreements with SGV on accounting principles or practices, financial statements disclosures, auditing scope or procedures, which disagreements, if not resolved to their satisfaction, would have caused them to make reference thereto in its respective reports on the Company's financial statements for the abovementioned years.

## PART III - CONTROL AND COMPENSATION INFORMATION

### Item 10. DIRECTORS AND EXECUTIVE OFFICERS OF THE REGISTRANT

#### 1. Board of Directors and Executive Officers

##### a. The Board of Directors

The Company's Board of Directors is responsible for the overall management and direction of the Company. The Board meets regularly or as often as required, to review and monitor the Company's financial position and operations. Each Board member serves for a term of one year or until his successor is duly elected and qualified.

The following are the directors and officers of the Company and their business experience for the last five years:



**Table V- Board of Directors**

<b>Office</b>	<b>Name</b>	<b>Nationality</b>
Director, President, Chairman of the Board	Tomas I. Alcantara	Filipino
Director, Vice-Chairperson and Treasurer	Editha I. Alcantara	Filipino
Director, Executive Vice President, Chief Operating Officer	Tirso G. Santillan, Jr.	Filipino
Director	Alejandro I. Alcantara	Filipino
Director	Ramon T. Diokno	Filipino
Director	Arturo B. Diago, Jr.	Filipino
Director	Conrado C. Alcantara	Filipino
Independent Director	Jacinto C. Gavino, Jr.	Filipino
Independent Director	Jose Ben R. Laraya	Filipino
Director	Honorio A. Poblador III	Filipino
Independent Director	Thomas G. Aquino	Filipino

**Tomas I. Alcantara**, 73, Filipino, became the Chairman of the Board of Directors and the President of the Company in August 2001. He holds a Bachelor of Science degree in Economics from the Ateneo de Manila University and a Masters in Business Administration (MBA) from Columbia University, and he attended the Advanced Management Program of the Harvard Business School. He is presently the Chairman of the Board of Directors and President of Alsons Development & Investment Corporation and Sarangani Agricultural Company, Inc., and other companies in the Alcantara Group (since August 2001).

Mr. Alcantara is also the Chairman of the Alsons Aidx Information Systems, Inc. (since August 2001). He is a Trustee of the European IT Service Center Foundation (since August 2002) and of the Foundation for Revenue Enhancement (August 2004). He has been a Director of Holcim Philippines, Inc. since July 2003, Philweb Corporation (May 2002) and DBP-Daiwa Capital Markets Phils., Inc. (July 1995).

Mr. Alcantara served as Undersecretary for the Industry & Investment Group of the Department of Trade and Industry, the Vice Chairman and Managing Head of the Board of Investments from July 1986 to March 1995, and the Special Envoy of the Philippine President to Asia Pacific Economic Cooperation forum in 1996. He was also the Chairman of the Board of Directors and the President of Holcim Manufacturing Corporation (formerly Alsons Cement Corporation) from May 1997 to July 2003 and has served as a Director of that company since 1997. He was a Member of the Advisory Board of Rizal Commercial Banking Corporation (RCBC) from April 1997 to June 2007. Mr. Alcantara served as a Director of Philippine Reclamation Authority (formerly Public Estate Authority) from 2003 to April 2006 and Chairman of the Manila Economic & Cultural Office from March 2001 to August 2010.

**Editha I. Alcantara**, 71, Filipino, has served as Director of the Company since March 8, 1995. She holds a Business Administration degree from Maryknoll College and an MBA from Boston College. Ms. Alcantara became the President of C. Alcantara and Sons, Inc. in 1992 after serving as the Treasurer of that company. Presently, she is a Director (since 1980) and the Treasurer (since October 2000) of other companies in the Alcantara Group.

She is also a Director of the Philippine Wood Producers Association (since May 16, 1980), and has served as a Trustee for the Philippine Business for the Environment, Inc. since July 1995 and as a Trustee of Miriam College since December 1998.

**Tirso G. Santillan Jr.**, 76, Filipino, became a Director of the Company in June 11, 1996. He has also been the Executive Vice-President since April 27, 1995. He holds a Bachelor of Arts degree in Engineering and a Masters in Business Management degree from the Ateneo de Manila University.

Presently, he heads the Power Business Unit of the Alcantara Group. He has been the Executive Vice-President of Alto Power Management Corporation since January 1996, Conal Holdings Corporation since June 1997, Southern Philippines Power Corporation and Western Mindanao Power Corporation since March 1996. He is also a Director of Sarangani Agricultural Co., Inc. since May 2002.

Additionally, he has been the Managing Partner of Private Capital of Asia Ltd. since June 1991. Mr. Santillan worked with the First Pacific Group from February 1987 to May 1991.

**Alejandro I. Alcantara**, 65, Filipino, has served as a Director of the Company since July 2003. He graduated from the Ateneo de Davao with a degree in Economics. Mr. Alcantara has been a Director and the President of Aquasur Resources Corporation since 1993 and has served in the same capacity with Finfish Hatcheries, Inc. since 1995. He has also served as the Executive Vice President & General Manager of Sarangani Agriculture Company, Inc. since 1986 and of Alsons Aquaculture Corporation since 1998. He also became a Director of other companies in the Alcantara Group in 1986. Mr. Alcantara also served as a Director and the Treasurer of the Federation of Cattle Raisers Association of the Philippines from 1997 to December 2009.

**Ramon T. Diokno**, 72, Filipino, rejoined the Company as a Director in March 18, 2009. Previously, he served the Company as a Director from June 19, 2002 to June 29, 2006 and as its Chief Financial Officer from January 16, 2001 to June 30, 2006. He holds an Economics and Accountancy degree from the De La Salle University and a Masters of Science in Management degree from the Massachusetts Institute of Technology.

Mr. Diokno is also the Chief Financial Officer of Lepanto Consolidated Mining Co and its wholly-owned subsidiaries. He is currently also a Director of Alsons Insurance Brokers Corporation.

**Conrado C. Alcantara**, 47, Filipino, has served as Director of the Company since November 2010. He graduated from the Boston University with a degree in Political Science and attended a Post Baccalaureate Program in Management at Harvard University. He presently serves as a Director and President of Infinicor, Inc. He also became a Director of C. Alcantara & Sons, Inc. in July 2006 and of Alsons Land Corporation in July 2009.

**Jacinto C. Gavino, Jr.**, 70, Filipino, has served as Independent Director of the Company since May 2005. He has been a full-time Faculty of the Asian Institute of Management (AIM) since 1990 and he presently holds the Fr. James F. Donelan, SJ, Professorial Chair in Business Ethics. He is on the core faculty of the Washington SyCip Graduate School of Business (WSGSB). He was also the Associate Dean of the Master in Management Program from 1993 to 1995, and Associate Dean for Research from 1995 to 1999.

He is currently a Director of Productronica Holdings, Inc. (2003), Aurotech Corporation (2000), Green Chemicals Corporation (2006), RNuable Energy Corporation (2011) and Sarangani Agricultural Co., Inc. (2005). He also serves as a Trustee of Fundacion Santiago (2002) and the Center for Family Ministries at the Loyola School of Theology (2006). He also does consultancy work for various businesses and non-profit organizations.

Professor Gavino holds a Bachelor of Science degree in Electrical Engineering from the University of the Philippines (1971), a Master in Business Administration degree from the Ateneo de Manila University (1984), and a Doctorate in Public Administration from the University of the Philippines (1993). He also taught in the Ateneo de Manila University, Maryknoll College, and the University of the Philippines.

**Jose Ben R. Laraya**, 80, Filipino, has served as Independent Director of the Company since March 1995. He holds a Commerce degree from De La Salle College and an MBA from the University of the Philippines. He also attended the Advanced Management Program at Harvard Business School. Currently, he serves as Chairman of the Board of Directors of Ultrex Management & Investments Corporation (1992) and Laraya Holdings, Inc. (2007). He also serves as President of Trully Natural Food Corporation (2004), and a Director of La Frutera, Inc. (1997).

Previously, he served as Vice-Chairman of Philcom Corporation from October 1996 to February 1999, President of National Steel Corporation from September 1980 to February 1989, Dole Asia from February 1989 to June 1992, and APC Group, Inc. from September 1995 to February 1999.

**Honorio A. Poblador III**, 74, Filipino, has served as a Director of the Company since March 8, 1995. He holds a Political Science degree from the Ateneo de Manila University. Currently, he serves as Chairman of the Board of Directors of Asuncion Realty Corporation (since 1995), Chairman of the Board of Directors and President of Asmaco, Inc. and President of Asian Aesthetic Excellence, Inc. and Mayriad Human Resources and Services, Inc.

He is also a Director of Philippine Communications Satellite Corporation, Philippine Overseas Telecommunications Corporation, and Elnor Investment Corp. (since 1983), Philcomsat Holdings Corporation (1998), the Philodrill Corporation (1997), F & C Realty Corporation and POB Corporation (2003).

**Dr. Thomas G. Aquino**, 71, Filipino, became an Independent Director of the Company in May 20, 2011. He is a Senior Fellow at the Center for Research and Communication of the University of Asia and the Pacific (UA&P). He was formerly the Senior Undersecretary of Philippine Department of Trade and Industry. He supervised the country's foreign trade promotions, trade negotiations under World Trade Organization & the ASEAN Free Trade Agreements as well as bilateral trade talks with the country's major economic trading nations. He served as overall lead negotiator for the country's first free trade agreement, namely the Philippines-Japan Economic Partnership Agreement and was country representative to the High Level Task Force on ASEAN Economic Integration. For public service, Dr. Aquino was conferred the Presidential Service Award (or Lingkod Bayan) for extraordinary contribution of national impact on public interest, security and patrimony and was recipient of the Gawad Mabini Award with the rank of Grand Cross (or Dakilang Kamanong) for distinguished

service to the country both at home and abroad by the President of the Republic of the Philippines.

Before entering public service, Dr. Aquino held important roles in the fields of economics and business in the private sector as Vice President for Business Economics and Director of the Strategic Business Economics Program of UA&P. He returned to private practice as strategy consultant to companies and economic policy adviser to government entities. He is the Chairman of NOW Corporation and Independent Director of A Brown Company, both publicly listed at the Philippine Stock Exchange. He obtained his Doctorate in Management from IESE Business School, University of Navarre (Spain) in 1980, an MS in Industrial Economics from presently the University of Asia and the Pacific in 1972 and an AB in Economics from the School of Economics, University of the Philippines in 1970.

He obtained a Doctorate in Management from IESE Business School, University of Navarre (Spain) in 1980, an MS in Industrial Economics from presently the University of Asia and the Pacific in 1972 and an AB in Economics from the School of Economics, University of the Philippines in 1970.

**Arturo B. Diago, Jr.** 68, Filipino, became a director of the Company in August 2017 after the resignation of Mr. Nicasio I. Alcantara in July 2017. Mr. Diago has been the Treasurer of Cyan Management Corporation since 1988, Teleperformance, Inc. since 1996, Lacturan Holdings, Inc. since 1997, Mantrade Development Corporation since 2003 and Canlubang Golf Corporation since 2007. Mr. Diago has been the Vice-President-Comptroller of MG Exeo Network, Inc. since 1991. He has been an Executive Vice President and Treasurer of Directories Philippines Corporation since 1989. He served as the Chief Officer for Administrative and Corporate Service of Pilipino Telephone Corporation until December 31, 2000. Mr. Diago served as the President of Lodestar Investment Holdings Corp. since May 2006. He held various positions in the Alcantara Group of Companies involved in manufacturing, marketing and shipping operations. He has been the Vice Chairman of Asian Media Development Group, Inc. since 2003. Mr. Diago serves as a Director of Directories Philippines Corporation and MG Exeo Network Inc., among other corporations. He has been a Director of Alsons Consolidated Resources, Inc. since August 24, 2017. He serves as a Director of Cebuana Lhuillier Bank, Cybersoft Information Technology, Inc., 911 Alarm, Inc. and Vinnell Belvoir Corp. He served as a Director of Lodestar Investment Holdings Corp. from March 10, 2006 to December 2007 and its Globalport 900, Inc. (a/k/a MIC Holdings Corp.). Mr. Diago served as a Director of PLDT Communications and Energy Ventures, Inc. (Former Name: Pilipino Telephone Corporation) from April 24, 1991 to May 9, 2011. He obtained his Master's Degree in Business Management from the Asian Institute of Management and his Bachelor of Science Degree in Commerce from the De La Salle University. He also attended the Strategic Business Economics Program of the Center for Research and Communication (now University of Asia and the Pacific).

#### b. The Executive Officers

The following Company executive officers do not own more than 2% of ACR:

**Table VI – Executive Officers**

Office	Name	Nationality
Director, President, Chairman of the Board	Tomas I. Alcantara	Filipino
Director and Treasurer	Editha I. Alcantara	Filipino
Director, Executive Vice President, Chief	Tirso G. Santillan, Jr.	Filipino

Operating Officer		
Corporate Secretary	Roberto V. San Jose	Filipino
Assistant Corporate Secretary	Angel M. Esguerra III	Filipino

**Roberto V. San Jose**, 78, Filipino, has been the Corporate Secretary of the Company since June 1991. He received his Bachelor of Arts degree from De La Salle University and his law degree from the University of the Philippines. He is a member of the Philippine Bar and a Consultant of the Castillo Laman Tan Pantaleon and San Jose Law Offices. In addition to serving as Corporate Secretary for the Company, he serves as Director, Officer and/or Corporate Secretary of Anglo Philippine Holdings Corp., CP Equities Corporation, Atlas Resources Management Group, MAA Consultants, Inc. and several other companies. He is also the Corporate Secretary of Premiere Horizon Alliance Corporation, Marc Ventures Holdings, Inc., Solid Group Inc., United Paragon Mining Corporation, FMF Development Corporation, Beneficial Life Insurance Co., Inc., The Metropolitan Club, Inc., and other client corporations of the Castillo Laman Tan Pantaleon and San Jose Law Firm.

**Angel M. Esguerra III**, 58, Filipino, was appointed as the Assistant Corporate Secretary of the Company on August 10, 2010. He is a member of the Philippine bar and obtained his Bachelor of Arts degree in Economics and his Law degree from the University of the Philippines. Mr. Esguerra practiced with several firms then joined a trans-national energy company with power plants in the Asia-Pacific Region as internal counsel, and served as the Corporate Secretary of its Philippine subsidiaries such as Batangas Power Corp. and Subic Power Corporation. In June of 2010, he joined the Alcantara Group as head of its Legal Services department and now serves as the Corporate Secretary of the group's other companies.

## **2. Family Relationship of Directors and Officers**

Mr. Tomas I. Alcantara, Mr. Alejandro I. Alcantara and Ms. Editha I. Alcantara are siblings, while Mr. Conrado C. Alcantara is their nephew.

## **3. Independent Directors**

The following are the Company's independent directors. They are neither officers nor substantial shareholders of ACR:

- a. Jacinto C. Gavino, Jr.
- b. Jose Ben R. Laraya
- c. Thomas G. Aquino

## **4. Warrants and Options Outstanding**

There are no warrants or options granted by the Company to any of its Directors or executive Officers.

## **5. Pending Legal Proceedings**

None of the directors and officers was involved in any bankruptcy proceedings as of March 31, 2020 and during the past five years. Neither have they been convicted by final judgment in any criminal proceedings or been subject to any order, judgment or decree of competent jurisdiction, permanently or temporarily enjoining, barring, suspending, or otherwise limiting their

involvement in any type of business, securities, commodities or banking activities, nor found in action by any court of administrative bodies to have violated a securities or commodities law.

#### 6. Significant employees

There are no persons other than the executive officers that are expected by the Company to make a significant contribution to the business.

#### 7. Legal Proceedings where Property is the Subject

There are no material pending legal proceedings to which the Company or any of its subsidiaries or affiliates is a party or of which any of their property is the subject.

### Item 11. EXECUTIVE COMPENSATION

A director's compensation represents a per diem of ₱30,000 for every attendance of a Board meeting, and ₱15,000 for every attendance of a meeting of the Executive and Corporate Governance Committee (Executive Committee) and the Audit Committee.

The aggregate amounts paid by the Company to its Directors and Executive Officers as a group were ₱2,985,000 and ₱5,256,000 for the years 2019 and 2018, and ₱3,705,000 in 2017, respectively. For 2020, the Company estimates that it will pay an aggregate amount of ₱4,257,000 as compensation to its Directors and Executive Officers.

Table VII - Summary of Compensation of Directors and Executive Officers

Name and Principal Position	Year (With 2020 Estimates)	Bonus (₱)	Other Annual Compensation Income (₱)
1. Tomas I. Alcantara Chairman and President	2020	₱ -	₱ 330,000
	2019	-	165,000
	2018	-	434,000
	2017	-	330,000
2. Editha I. Alcantara Director & Treasurer	2020	-	405,000
	2019	-	285,000
	2018	-	509,000
	2017	-	330,000
3. Tirso G. Santillan, Jr. Director, EVP & COO	2020	-	405,000
	2019	-	315,000
	2018	-	509,000
	2017	-	330,000
4. Jose Ben R. Laraya Director	2020	-	405,000
	2019	-	330,000
	2018	-	509,000
	2017	-	330,000
5. Ramon T. Diokno Director	2020	-	375,000
	2019	-	255,000
	2018	-	464,000
	2017	-	330,000

All other Officers and Directors as a group unnamed	2020	-	2,355,000
	2019	-	1,635,000
	2018	-	2,831,000
	2017	-	1,500,000

Other Annual Compensation received from ACR represents per diems given for every attendance in a Board, an Executive Committee (Excom) meeting or an Audit Committee meeting. The disclosure on the compensation of Key Management Personnel is presented in Note 20 of the consolidated financial statements.

The Company and the executive officers are not involved in any of the following transactions:

1. Standard arrangement and any material arrangements;
2. Employment contract (between the registrant and named executive officers);
3. Compensatory plan or arrangement;
4. Outstanding warrants or options;
5. Adjustments or amendments on the stock warrants or options.

The members of the Compensation Committee of the Company are as follows:

Position	Name
Chairman	Tomas I. Alcantara
Member	Honorio A. Poblador III
Member (Independent Director)	Jose Ben R. Laraya
Member	Tirso G. Santillan, Jr.

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

The above named executive officers of the Company are not employees of ACR and are not covered by any existing employment contracts. They only receive per diems if they attend a meeting of the Board, or its Executive, or Audit, Committee.

#### **Warrants and Options Outstanding: Repricing**

There are no outstanding warrants or options held by the directors or executive officers of the Company.

**Item 12. SECURITIES OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT**

**1. Security Ownership of Certain Record and Beneficial Owners**

As of December 31, 2018, Alsons Consolidated Resources, Inc. knows of no one who beneficially owns in excess of 5% of its common stock except as set forth in the following table:

**Table VIII - Beneficial Owners of Voting Securities**

Title of Class	Name and address of Record Owner	Relationship with Issuer	Name of Beneficial Owner and Relationship with record owner	Citizenship	Number of Shares Held	Percentage
Common	<u><b>Alsons Corporation<sup>1</sup></b></u> <b>(AC)</b> Alsons Bldg., 2286 Don Chino Roces Avenue, Makati City	Affiliate	Alsons Corporation <sup>2</sup>	Filipino	2,592,524,072	41.21%
Common	<b>Alsons Power Holdings Corp<sup>1</sup></b> <b>(APHC)</b> Alsons Bldg., 2286 Don Chino Roces, Avenue Makati City	Affiliate	Alsons Power Holdings Corporation <sup>2</sup>	Filipino	1,249,999,599	19.87%
Common	<b>Alsons Development &amp; Investment Corp<sup>1</sup></b> <b>(ALDEVINCO)</b> 329 Bonifacio St., Davao City	Affiliate	Alsons Development and Investment Corporation <sup>2</sup>	Filipino	1,188,524,026	18.89%
Common	<b>PCD Nominee Corporation<sup>3</sup> (Fil)</b> MSE Bldg., Ayala Ave., Makati City	None	Various <sup>4</sup>	Filipino	1,147,422,476	18.13%

**2. Security Ownership of Management**

The following table shows the securities beneficially owned by all directors, nominees and executive officers of ACR as of December 31, 2018:

**Table IX - Security Ownership of Management**

**Directors:**

Title of Class	Name of Beneficial Owner	Amount and Nature of Beneficial Ownership	Citizenship	Registered (r) or Beneficial (b)	Percent of Ownership
Common	Tomas I. Alcantara	1	Filipino	r	0.00%
Common	Editha I. Alcantara	100,000	Filipino	r	0.00%
Common	Alejandro I. Alcantara	1	Filipino	r	0.00%
Common	Jacinto C. Gavino, Jr.	1	Filipino	r	0.00%

<sup>1</sup> The President and CEO of the Corporation, Tomas I. Alcantara, is the Chairman of the Board of Directors of the Company.

<sup>2</sup> The respective Boards of Directors of each of AC, APHC and Aldevinco has power to decide how the shares are to be voted.

<sup>3</sup> The PCD Nominee Corporation is not related to the Company.

<sup>4</sup> There are no holders of more than 5% of common stock under PCD. The clients of the various PCD participants have the power to decide how the Company's shares are to be voted.



Common	Ramon T. Diokno	1	Filipino	r	0.00%
Common	Jose Ben R. Laraya	100	Filipino	r	0.00%
Common	Conrado C. Alcantara	1	Filipino	r	0.00%
Common	Honorio A. Poblador III	100	Filipino	r	0.00%
Common	Thomas G. Aquino	100	Filipino	r	0.00%
Common	Tirso G. Santillan, Jr.	1	Filipino	r	0.00%
Total		100,406			0.00%

**Officers:**

Title of Class	Name of Beneficial Owner	Amount and Nature of Beneficial Ownership	Citizenship	Registered (r) or Beneficial (b)	Percent of Ownership
Common	Tomas I. Alcantara	1	Filipino	R	0.00%
Common	Editha I. Alcantara	100,000	Filipino	R	0.00%
Common	Tirso G. Santillan, Jr.	1	Filipino	R	0.00%
Common	Roberto V. San Jose	500,000	Filipino	R	0.00%
Total		600,002			0.00%

### 3. Voting Trust Holder of 5% or More

No person holds five percent (5%) or more of the issued and outstanding shares of stock of the Company under voting trust or similar agreement.

### 4. Changes in Control

There are no arrangements which may result in a change in control of the registrant.

## Item 13. CERTAIN RELATIONSHIP AND RELATED TRANSACTIONS

During the last three (3) years, the Company was not a party in any transaction in which a Director or Executive Officer of the Company, any nominee for election as a Director, or any security holder owning more than 5% of any class of the Company's issued and outstanding shares and/or his/her immediate family member had a material interest thereon.

In the normal conduct of business, the following are among the other transactions with its affiliates and related parties disclosed in the audited financial statements under Notes 17 (Loans Payable), 18 Long-term Debt) and 20 (Related Party):

- In October 2015, the Company subscribed to 22 million redeemable preferred shares of Alsons Development and Investment Corporation (ALDEVINCO), a shareholder, through a conversion of its advances to ALDEVINCO amounting to ₱2.2 billion. These shares have a par value of ₱100 per share and a cumulative dividend of 4% per annum, and are non-participating. The Parent Company accounts for its investment in redeemable preferred shares as part of AFS investment in the Financial Statements.
- On March 21, 2013, ALDEVINCO and ACIL (collectively, AG) and Ayala Land, Inc. (ALI) entered into a joint venture agreement, where ALI would own 60%, and AG would own 40%, of the outstanding capital stock of a joint venture corporation, Aviana Development Corporation (ADC), which would develop the Lanang property in Davao City. Thereafter, ALDEVINCO assigned to ACR all of its rights and obligations in the agreement. On September 17, 2013, ADC was incorporated, and ACR has subscribed to, and now owns, 34% of ADC's outstanding capital stock.

There were no transactions to which the Company was a party during the past two (2) fiscal years where a director, executive officer, nominee for director, or stockholder owning more than 10% of the outstanding shares of the Company had a direct interest.

The Company retains the law firm of Castillo Laman Pantaleon and San Jose for legal services, where Atty. Roberto V. San Jose is a Consultant. In 2019, and 2018, ACR paid this law firm fees of ₱360,000.00 and ₱5,135,548.08, respectively. Included in the for 2018 is the ₱4,722,338.88 payment for legal advice and services on the partial divestment of Alsons Thermal Energy Corporation in 2017. The Company believes that these fees are reasonable for the services rendered.

**List all parents of the registrant showing the basis of control and as to each parent, the percentage of voting securities owned or other basis of control by its immediate parent, if any.**

With the Company's issuance of the voting preferred shares, the Company's ultimate parent company is Alsons Corporation or AC, which owns 68.63% of all the common and the preferred shares. The Company's outstanding common shares, which are all listed in the Philippine Stock Exchange, are owned and controlled by the following Companies: Alsons Corporation - 41.21%; Alsons Power Holdings Corporation - 19.87%; and Alsons Development & Investment Corporation - 18.89%.

## **PART IV – CORPORATE GOVERNANCE**

### **Item 14. CORPORATE GOVERNANCE**

In compliance with the directives of the SEC, please find attached the latest Integrated Annual Corporate Governance Report by the Company filed with the SEC.

## **PART V - EXHIBITS AND SCHEDULES**

### **Item 15. EXHIBITS AND REPORTS**

#### **15.1 Consolidated Financial Statements**

The Audited Consolidated Financial Statements for the years ended December 31, 2019 and 2018 are attached as Exhibit 1:

- Management's Responsibility to the Financial Statements
- Independent Auditor's Report
- Consolidated Balance Sheets December 31, 2019 and 2018
- Consolidated Statements of Income for the three years ended December 31, 2019, 2018 and 2017
- Consolidated Statements of Comprehensive Income for the three years ended December 31, 2019, 2018 and 2017
- Consolidated Statements of Cash Flows for the three years ended December 31, 2019, 2018 and 2017.
- Notes to Consolidated Financial Statements

#### **15.2 Supplementary Schedules**

Independent Auditor's Report on Supplementary Schedules SRC Annex 68-E Schedules

- A. Financial Assets – (Cash equivalents, Short-term cash investments, and Available for Sale Financial Assets)
- B. Amounts Receivable from Directors, Officers, Employees, Related Parties

- and Principal Stockholders
- C. Amounts receivable from related parties which are eliminated during the consolidation of financial statements
- D. Intangible Assets - Other Assets
- E. Long-term Debt
- F. Indebtedness to Related Parties
- G. Guarantees of Securities of Other Issuers
- H. Capital Stock
  - Schedule of Retained Earnings Available for Dividend Declaration
  - Conglomerate Map
  - Schedule of All Effective Standards and Interpretations

15.3 Reports on SEC Form 17-C

- Report on SEC Form 17-C filed during the year ended December 31, 2019 is attached together with this report and presented in Exhibit 6:

### SIGNATURES

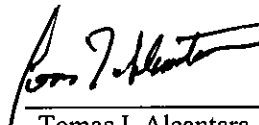
Pursuant to the requirements of Section 17 of the Code and Section 141 of the Corporation Code, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized, in the City of Makati on \_\_\_\_\_.

### ALSONS CONSOLIDATED RESOURCES, INC.

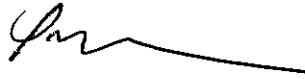
Issuer

Pursuant to the requirements of the Securities Regulation Code, this annual report has been signed by the following persons in the capacities and on the date indicated.

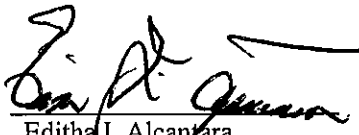
By:

  
Tomas I. Alcantara  
Chairman and President

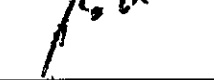
Date : 5/28/20

  
Tirso G. Santillan, Jr.  
Executive Vice-  
President and Chief  
Operating Officer

Date : 5/28/20

  
Editha I. Alcantara  
Treasurer

Date : 5/28/20

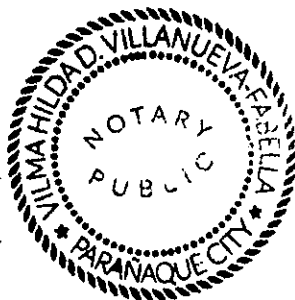
  
Roberto V. San Jose  
Corporate Secretary

Date : 5/28/20


SUBSCRIBED AND SWORN to before me this MAY 28, 2020 day of \_\_\_\_\_ affiants exhibiting to me competent evidence of their respective identity as follows:

<u>NAMES</u>	<u>IDENTIFICATION NO.</u>	<u>DATE &amp; PLACE OF ISSUE</u>
Tomas I. Alcantara	UMID#CRN-0111-0521374-6	
Tirso G. Santillan, Jr.	DL#N17-72-000977	Valid until 2/12/2023 LTO QC
Editha I. Alcantara	EC4769595	07/29/2015 / DFA NCR South
Roberto V. San Jose	PP#P1329913A	12-20-16 / DFA NCR South

Doc. No. 279  
Page No. 57  
Book No. 08  
Series of 2020



Angel M. Esguerra III  
Notary Public  
for Makati City until December 31, 2021  
Commission No. M-218; Roll No. 34787; 06/01/87  
IBP Lifetime No. 00259; 06/01/95; Pasay Chapter  
PTR OR No. 8121644; 01-06-2020; Makati City  
Alsons Bldg., 2286 Chino Roces Ave., Makati City

  
**ATTY. VILMA HILDA VILLANUEVA-FABELLA**  
NOTARY PUBLIC  
Until December 31, 2020  
IBP No. 101004/1-03-2020/PPLM  
PTR No. 2216225/1-02-2020/Parañaque  
Roll No. 41901  
Not. Com. No. 119-2019/1-07-2019  
55 Molave Ave., Marville, Parañaque City

ALSONS CONSOLIDATED RESOURCES, INC.  
INDEX TO CONSOLIDATED FINANCIAL STATEMENTS AND SUPPLEMENTARY  
SCHEDULES  
FORM 17-A, Item 7

Exhibit No.

**Consolidated Financial Statements**

Exhibit 1

Statement of Management's Responsibility  
Report of Independent Public Accountants  
Consolidated Balance Sheets as of December 31, 2019, 2018 and 2017  
Consolidated Statements of Income for the three years ended December 31,  
2019, 2018 and 2017  
Consolidated Statements of Comprehensive Income for the three  
Years ended December 31, 2019, 2018 and 2017  
Consolidated Statements of Cash Flows for the three years ended December  
31, 2019, 2018 and 2017  
Notes to Consolidated Financial Statements

**Supplementary Schedules**

Exhibit 2

Independent Auditor's Report on Supplementary Schedules  
SRC Annex 68-E Schedules  
A. Financial Assets – (Cash equivalents, Short-term cash investments, and  
Available for Sale Financial Assets)  
B. Amounts Receivable from Directors, Officers, Employees, Related Parties  
and Principal Stockholders  
C. Amounts receivable from related parties which are eliminated during the  
consolidation of financial statements  
D. Intangible Assets - Other Assets  
E. Long-term Debt  
F. Indebtedness to Related Parties  
G. Guarantees of Securities of Other Issuers \*  
H. Capital Stock  
Schedule of Retained Earnings Available for Dividend Declaration  
Conglomerate Map  
Schedule of All Effective Standards and Interpretations

## INDEX TO EXHIBITS

### Form 17-A

	<u>Page No.</u>
Plan of Acquisition, Reorganization, Arrangement, Liquidation, or Succession	*
Instruments Defining the Rights of Security Holders, Including Indentures	**
Voting Trust Agreement	*
Material Contracts	**
Annual Report to Security Holders, Form 11-Q or Quarterly Report to Security Holders	*
Letter re: Change in Certifying Accountant	*
Report Furnished to Security Holders	*
Published Report Regarding Matters Submitted to Vote of Security Holders	*
Consent of Experts and Independent Counsel	*
Power of Attorney	*

- 
- \* These Exhibits are either not applicable to the Company or require no answer.  
\*\* There were no changes or additions to those already provided in our SEC Form 11-A and in our succeeding filing.

## **EXHIBIT 1**

### **AUDITED FINANCIAL STATEMENTS DECEMBER 31, 2019 AND 2018 And Years Ended December 31, 2019, 2018 and 2017**

# COVER SHEET

for  
**AUDITED FINANCIAL STATEMENTS**

SEC Registration Number

						5	9	3	6	6
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**COMPANY NAME**

A	L	S	O	N	S	C	O	N	S	O	L	I	D	A	T	E	D	R	E	S	O	U	R	C	E	S	,
I	N	C	.	A	N	D	S	U	B	S	I	D	I	A	R	I	E	S									

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

A	l	s	o	n	s	B	u	i	l	d	i	n	g	,	2	2	8	6	C	h	i	n	o		
R	o	c	e	s	A	v	e	n	u	e	,	M	a	k	a	t	i	C	i	t	y	,			
M	e	t	r	o	M	a	n	i	l	a	,	P	h	i	l	i	p	p	i	n	e	s			

Form Type

A	A	F	S
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Department requiring the report

C	R	M	D
---	---	---	---

Secondary License Type, If Applicable

N	A
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**COMPANY INFORMATION**

<p>Company's Email Address</p> <p style="text-align: center;"><b>legal@alcantaragroup.com</b></p>	<p>Company's Telephone Number</p> <p style="text-align: center;"><b>(02) 8982-3000</b></p>	<p>Mobile Number</p> <p style="text-align: center;"><b>N/A</b></p>
<p>No. of Stockholders</p> <p style="text-align: center;"><b>464</b></p>	<p>Annual Meeting (Month / Day)</p> <p style="text-align: center;"><b>May 30</b></p>	<p>Fiscal Year (Month / Day)</p> <p style="text-align: center;"><b>December 31</b></p>

**CONTACT PERSON INFORMATION**

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

<p>Name of Contact Person</p> <p style="text-align: center;"><b>Robert F. Yenko</b></p>	<p>Email Address</p> <p style="text-align: center;"><b>ryenko@alcantaragroup.com</b></p>	<p>Telephone Number/s</p> <p style="text-align: center;"><b>(02) 8982-3000</b></p>	<p>Mobile Number</p> <p style="text-align: center;"><b>N/A</b></p>
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**CONTACT PERSON'S ADDRESS**

<b>Alsons Building, 2286 Chino Roces Avenue, Makati City, Metro Manila, Philippines</b>
---

**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.







**Alsons Consolidated Resources, Inc.**  
(Listed in the Philippine Stock Exchange Trading Symbol "ACR")  
2nd Floor, Alsons Building  
2286 Chino Roces Ext., (formerly P. Tamo Ext.,) Makati City  
1231 Metro Manila Philippines  
Tel. Nos.: (632) 982-3000 Fax Nos.: (632) 982-3077  
Website: www.acr.com.ph

## STATEMENT OF MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL STATEMENTS

SECURITIES AND EXCHANGE COMMISSION,  
Secretariat Building, PICC Complex  
Roxas Boulevard, Pasay City


The management of **Alsons Consolidated Resources, Inc.**, is responsible for the preparation and fair presentation of the consolidated financial statements including the schedules attached therein, for the years ended December 31, 2019 and 2018, in accordance with the prescribed financial reporting framework indicated therein, and for such internal control as management determines is necessary to enable the preparation of 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 Company's ability to continue as a going concern, disclosing, as applicable matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

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

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

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

  
**TOMAS I. ALCANTARA**  
Chairman and President

  
**TIRSO G. SANTILLAN, JR.**  
Executive Vice-President

  
**EDITHA I. ALCANTARA**  
Treasurer

SUBSCRIBED AND SWORN to before me this **MAY 28 2020** affiants exhibiting to me their Identifications, as follows:

Name

Identification No.

Date & Place of Issue

Tomas I. Alcantara  
Tirso G. Santillan, Jr.  
Editha I. Alcantara

UMID#CRN-0111-0521374-6  
DL#N17-72-000977  
EC4769595


Valid until 2/12/2023 LTO QC  
07-29-15 / DFA NCR South



Doc No. 281  
Page No. 58  
Book No. 08  
Series of 2020

**ANGEL M. ESGUERRA, II**  
Notary Public

for Makati City until December 31, 2021  
Commission No. M-218; Roll No. 34787; 06/01/87  
IBP Lifetime No. 00259; 06/01/1995; Pasay Chapter  
PTR OR No. 8121644; 01/06/20; Makati City  
Alsons Bldg., 2286 Chino Roces Ave., Makati City

  
**ATTY. VILMA HILDA VILLANUEVA-FABELLA**  
NOTARY PUBLIC  
Until December 31, 2020  
IBP No. 101004/1-03-2020/PPLM  
PTR No. 2216225/1-02-2020/Paranaque  
Roll No. 41901  
Not. Com. No. 119-2019/1-07-2019  
35 Molave Ave., Marville, Paranaque City

## INDEPENDENT AUDITOR'S REPORT

The Stockholders and the Board of Directors  
Alsons Consolidated Resources, Inc.  
Alsons Building, 2286 Chino Roces Avenue  
Makati City, Metro Manila, Philippines

### Opinion

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

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

### Basis for Opinion

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

### Key Audit Matters

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

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



### ***Recoverability of Goodwill***

Under Philippine Accounting Standard (PAS) 36, *Impairment of Assets*, the Group is required to annually test the amount of goodwill for impairment. As at December 31, 2019, the Group's goodwill that is attributable to its two power generation cash-generating units (CGUs) amounted to ₱807 million, which is considered significant to the consolidated financial statements. In addition, management's assessment process requires significant judgment and is based on assumptions, specifically the contracted and dispatchable capacities, tariff rates and discount rates.

The Group's disclosures about goodwill are included in Note 14 to the consolidated financial statements.

### ***Audit Response***

We involved our internal specialist in evaluating the methodology and the assumptions used, specifically on discount rates. We compared the other key assumptions used, such as contracted and dispatchable capacities against the historical performance of the CGUs, market outlook and other relevant external data. For tariff rates, we compared the rates used against the rates in the provisionally approved power sales agreements, ancillary services procurement agreements and other relevant external data. We tested the parameters used in the determination of the discount rates against market data. We also reviewed the Group's disclosures about those assumptions to which the outcome of the impairment test is most sensitive; specifically, those that have the most significant effect on the determination of the recoverable amount of goodwill.

### ***Valuation of Unquoted Investment in Alsons Development & Investment Corporation (Aldevinco)***

The Group's investment on equity securities designated at fair value through other comprehensive income (FVOCI) include an investment in unquoted preferred shares of Aldevinco amounting to ₱2,200 million, comprising 5% of total consolidated assets as at December 31, 2019. This matter is significant to our audit because determining the fair value of an unquoted equity investment is inherently subjective as it involves the use of valuation inputs that are not market observable. Management also applied judgment in selecting the valuation technique and assumptions to be used considering the information available to the Group.

The Group's disclosures about its investment in unquoted equity securities designated at FVOCI are included in Note 13 to the consolidated financial statements.

### ***Audit Response***

We reviewed the valuation technique and the assumptions used, which include the fair values of the investee's identifiable assets and liabilities, such as the fair values of real estate inventories, appraised values of real properties and fair values of investments in listed and unlisted securities of the investee company's underlying assets and discount for lack of marketability. We compared the key assumptions used against market values and other relevant external data. We also reviewed the Group's disclosures about those assumptions to which the outcome of the valuation is most sensitive; specifically, those that have the most significant effect on the determination of the fair value of the unquoted equity investment.



## **Other Information**

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

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

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

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

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

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

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

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

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



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

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

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

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



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

The engagement partner on the audit resulting in this independent auditor's report is Manolito R. Elle.

SYCIP GORRES VELAYO & CO.

*Manolito R. Elle*

Manolito R. Elle

Partner

CPA Certificate No. 106471

SEC Accreditation No. 1618-AR-1 (Group A),

November 11, 2019, valid until November 10, 2022

Tax Identification No. 220-881-929

BIR Accreditation No. 08-001998-128-2019,

November 27, 2019, valid until November 26, 2022

PTR No. 8125233, January 7, 2020, Makati City

March 19, 2020



**ALSONS CONSOLIDATED RESOURCES, INC. AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF FINANCIAL POSITION**

	December 31	
	2019	2018
<b>ASSETS</b>		
<b>Current Assets</b>		
Cash and cash equivalents (Note 7)	₱2,814,560,639	₱3,474,561,841
Short-term cash investments (Note 7)	181,632,086	262,952,916
Trade and other receivables (Notes 8 and 20)	3,180,128,360	2,611,221,442
Spare parts and supplies - at cost (Note 9)	642,939,891	682,741,033
Real estate inventories (Note 10)	632,070,639	631,565,395
Prepaid expenses and other current assets (Notes 15 and 18)	1,388,195,478	1,240,571,129
<b>Total Current Assets</b>	<b>8,839,527,093</b>	<b>8,903,613,756</b>
<b>Noncurrent Assets</b>		
Noncurrent portion of installment receivables (Note 8)	1,967,393	4,019,641
Contract assets (Notes 6 and 8)	1,131,664,236	1,080,416,000
Investments in real estate (Note 10)	191,394,011	191,436,343
Investments in associates (Note 11)	2,198,140,844	2,209,533,587
Property, plant and equipment (Note 12)	29,096,966,060	27,137,641,252
Equity investments designated at fair value through other comprehensive income (FVOCI) [Note 13]	2,350,666,222	2,358,327,598
Advances to contractors	398,404,368	97,932,769
Goodwill (Note 14)	806,687,320	806,687,320
Net retirement benefits assets (Note 28)	18,271,750	20,450,756
Deferred financing cost (Note 18)	—	39,796,992
Deferred income tax assets - net (Note 29)	75,807,239	43,393,316
Other noncurrent assets	499,717,049	598,573,648
<b>Total Noncurrent Assets</b>	<b>36,769,686,492</b>	<b>34,588,209,222</b>
<b>TOTAL ASSETS</b>	<b>₱45,609,213,585</b>	<b>₱43,491,822,978</b>
<b>LIABILITIES AND EQUITY</b>		
<b>Current Liabilities</b>		
Accounts payable and other current liabilities (Note 16)	₱4,480,650,789	₱4,657,904,845
Loans payable (Note 17)	112,291,726	354,895,860
Short-term notes payable (Note 17)	1,618,725,542	95,163,413
Income tax payable	68,454,301	10,207,718
Current portion of long-term debts (Note 18)	5,770,565,644	1,161,893,431
<b>Total Current Liabilities</b>	<b>12,050,688,002</b>	<b>6,280,065,267</b>
<b>Noncurrent Liabilities</b>		
Long-term debts - net of current portion (Note 18)	17,528,929,060	21,619,760,478
Deferred income tax liabilities - net (Note 29)	711,388,178	849,195,409
Net retirement benefits liabilities (Note 28)	74,604,824	37,952,129
Lease liability - net of current portion (Note 30)	13,991,345	—
Decommissioning liability (Notes 12 and 19)	374,915,615	199,409,217
<b>Total Noncurrent Liabilities</b>	<b>18,703,829,022</b>	<b>22,706,317,233</b>
<b>Total Liabilities</b>	<b>30,754,517,024</b>	<b>28,986,382,500</b>

(Forward)



	December 31	
	2019	2018
<b>Equity (Note 21)</b>		
Capital stock	₱6,335,683,333	₱6,331,283,333
Equity reserves	2,494,321,789	2,518,570,606
Retained earnings:		
Unappropriated	1,562,270,564	1,344,989,831
Appropriated	1,100,000,000	1,300,000,000
Attributable to equity holders of the Parent Company	11,492,275,686	11,494,843,770
Non-controlling interests (Notes 1 and 21)	3,362,420,875	3,010,596,708
<b>Total Equity</b>	<b>14,854,696,561</b>	<b>14,505,440,478</b>
<b>TOTAL LIABILITIES AND EQUITY</b>	<b>₱45,609,213,585</b>	<b>₱43,491,822,978</b>

*See accompanying Notes to Consolidated Financial Statements.*





**ALSONS CONSOLIDATED RESOURCES, INC. AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF INCOME**

	Years Ended December 31		
	2019	2018	2017
<b>REVENUES</b>			
Revenue from contract with customers (Notes 6 and 33)	<b>P6,785,917,506</b>	P6,654,220,237	P--
Rental income (Note 30)	<b>10,178,592</b>	12,050,882	12,158,045
Energy fees (Note 33)	--	--	6,494,068,927
Real estate sales (Note 33)	--	--	12,673,806
	<b>6,796,096,098</b>	6,666,271,119	6,518,900,778
<b>COSTS AND EXPENSES</b>			
Cost of services (Note 22)	<b>(4,236,965,190)</b>	(4,672,776,589)	(4,573,651,777)
Cost of real estate sold (Note 10)	<b>(3,198,806)</b>	(7,478,621)	(9,498,425)
General and administrative expenses (Note 23)	<b>(597,891,399)</b>	(487,134,253)	(562,111,244)
	<b>(4,838,055,395)</b>	(5,167,389,463)	(5,145,261,446)
<b>OTHER INCOME (CHARGES)</b>			
Finance charges (Note 26)	<b>(1,081,013,732)</b>	(1,185,892,672)	(1,200,295,515)
Interest income (Notes 7 and 18)	<b>118,193,175</b>	62,966,406	37,863,224
Equity in net earnings of associates (Note 11)	<b>70,629,805</b>	32,888,825	--
Others - net (Note 27)	<b>(24,660,862)</b>	293,839,536	70,152,948
	<b>(916,851,614)</b>	(796,197,905)	(1,092,279,343)
<b>INCOME BEFORE INCOME TAX</b>	<b>1,041,189,089</b>	702,683,751	281,359,989
<b>PROVISION FOR (BENEFIT FROM)</b>			
<b>INCOME TAX</b> (Note 29)			
Current	<b>211,948,807</b>	86,586,212	143,551,013
Deferred	<b>(144,912,544)</b>	53,144,742	34,331,187
	<b>67,036,263</b>	139,730,954	177,882,200
<b>NET INCOME</b>	<b>P974,152,826</b>	P562,952,797	P103,477,789
Net income (loss) attributable to:			
Equity holders of the Parent Company	<b>P147,510,733</b>	P93,500,832	(P21,033,147)
Non-controlling interests	<b>826,642,093</b>	469,451,965	124,510,936
	<b>P974,152,826</b>	P562,952,797	P103,477,789
Basic/diluted earnings (loss) per share attributable to equity holders of the Parent Company (Note 21)	<b>P0.023</b>	P0.014	(P0.004)

*See accompanying Notes to Consolidated Financial Statements.*



**ALSONS CONSOLIDATED RESOURCES, INC. AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME**

	Years Ended December 31		
	2019	2018	2017
<b>NET INCOME</b>	<b>₱974,152,826</b>	<b>₱562,952,797</b>	<b>₱103,477,789</b>
<b>OTHER COMPREHENSIVE INCOME (LOSS)</b>			
<i>Items that will not be reclassified to profit or loss:</i>			
Actuarial gains (losses) on defined benefit plan (Note 28)	(28,223,858)	1,638,226	(3,141,328)
Effect of changes in asset ceiling	—	—	3,056,014
Tax effect (Note 29)	4,757,333	(4,666,611)	(246,394)
	(23,466,525)	(3,028,385)	(331,708)
Net changes in fair values of equity investments designated at FVOCI (Note 13)	(7,661,376)	12,024,309	—
	(31,127,901)	8,995,924	(331,708)
<i>Items that will be reclassified to profit or loss:</i>			
Unrealized gains on fair valuation of AFS financial assets	—	—	9,602,718
Translation adjustments	(4,838,842)	15,311,495	1,155,929
	(4,838,842)	15,311,495	10,758,647
<b>TOTAL OTHER COMPREHENSIVE INCOME (LOSS), NET OF TAX</b>	<b>(35,966,743)</b>	<b>24,307,419</b>	<b>10,426,939</b>
<b>TOTAL COMPREHENSIVE INCOME</b>	<b>₱938,186,083</b>	<b>₱587,260,216</b>	<b>₱113,904,728</b>
Total comprehensive income (loss) attributable to:			
Equity holders of the Parent Company	₱123,261,916	₱119,870,916	(₱10,023,797)
Non-controlling interests	814,924,167	467,389,300	123,928,525
	₱938,186,083	₱587,260,216	₱113,904,728

See accompanying Notes to Consolidated Financial Statements.



**ALSONS CONSOLIDATED RESOURCES, INC. AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY**  
**FOR THE YEARS ENDED DECEMBER 31, 2019, 2018 AND 2017**

	Attributable to Equity Holders of the Parent Company									
	Other Equity Reserves					Retained Earnings (Note 21)				
	Capital Stock (Note 21)	Remeasurement Gains (Losses) on Defined Benefit Plan (Notes 21 and 28)	Unrealized Gains (Losses) on FVOCI / AFS Financial Assets (Notes 13 and 21)	Cumulative Translation Adjustments (Note 21)	Equity Reserves (Note 21)	Sub-total	Unappropriated	Appropriated	Sub-total	Non-controlling Interests (Note 1)
<b>BALANCES AS AT DECEMBER 31, 2016</b>	<b>P6,322,483,333</b>	<b>P4,756,234</b>	<b>(P52,922,963)</b>	<b>P1,677,199,965</b>	<b>P145,480,697</b>	<b>P1,774,513,933</b>	<b>P1,013,611,249</b>	<b>P1,300,000,000</b>	<b>P10,410,608,515</b>	<b>P301,386,276</b>
Net income (loss)	-	-	-	-	-	-	(21,033,147)	-	(21,033,147)	124,510,936
Other comprehensive income (loss)	-	(105,414)	9,602,718	1,153,833	-	10,651,137	358,213	-	11,009,350	(582,411)
Total comprehensive income (loss)	-	(105,414)	9,602,718	1,153,833	-	10,651,137	(20,674,934)	-	(10,023,797)	123,928,525
Collection of subscriptions receivable	4,400,000	-	-	-	-	-	-	-	4,400,000	-
Cash dividends declaration (Note 21)	-	-	-	-	-	-	(105,064,000)	-	(105,064,000)	(225,000,000)
Additional investment in a subsidiary (Note 1)	-	-	-	-	-	-	-	-	-	1,125,000,000
Disposal of interest in a subsidiary without loss of control (Note 1)	-	-	-	-	709,140,065	709,140,065	-	-	709,140,065	1,495,267,800
<b>BALANCES AS AT DECEMBER 31, 2017</b>	<b>6,326,883,333</b>	<b>4,650,820</b>	<b>(43,320,245)</b>	<b>1,678,353,798</b>	<b>854,620,762</b>	<b>2,494,305,135</b>	<b>887,872,315</b>	<b>1,300,000,000</b>	<b>11,009,060,783</b>	<b>2,820,582,601</b>
Effect of adoption of PFRS 15, <i>Revenue from Contracts with Customers</i> (Note 5)	-	-	-	-	-	-	592,406,071	-	592,406,071	248,624,801
<b>BALANCES AS AT JANUARY 1, 2018</b>	<b>6,326,883,333</b>	<b>4,650,820</b>	<b>(43,320,245)</b>	<b>1,678,353,798</b>	<b>854,620,762</b>	<b>2,494,305,135</b>	<b>1,480,278,386</b>	<b>1,300,000,000</b>	<b>11,601,466,854</b>	<b>3,069,207,402</b>
Net income	-	-	-	-	-	-	93,500,832	-	93,500,832	469,451,965
Other comprehensive income (loss)	-	(109,316)	12,024,309	14,896,210	-	26,811,203	(441,119)	-	26,370,084	(2,062,665)
Total comprehensive income (loss)	-	(109,316)	12,024,309	14,896,210	-	26,811,203	93,059,713	-	119,870,916	467,389,300
Collection of subscriptions receivable	4,400,000	-	-	-	-	-	-	-	4,400,000	-
Transfer of realized gain from OCI (Note 13)	-	-	(2,545,732)	-	-	(2,545,732)	2,545,732	-	-	-
Cash dividends declaration (Note 21)	-	-	-	-	-	-	(230,894,000)	-	(230,894,000)	(525,999,994)
<b>BALANCES AS AT DECEMBER 31, 2018</b>	<b>6,331,283,333</b>	<b>4,541,504</b>	<b>(33,841,668)</b>	<b>1,693,250,008</b>	<b>854,620,762</b>	<b>2,518,570,606</b>	<b>1,344,989,831</b>	<b>1,300,000,000</b>	<b>11,494,843,770</b>	<b>3,010,596,708</b>
Net income	-	-	-	-	-	-	147,510,733	-	147,510,733	826,642,093
Other comprehensive loss	-	(11,880,441)	(7,661,376)	(4,707,000)	-	(24,248,817)	-	-	(11,717,926)	(35,966,743)
Total comprehensive income (loss)	-	(11,880,441)	(7,661,376)	(4,707,000)	-	(24,248,817)	147,510,733	-	123,261,916	814,924,167
Collection of subscriptions receivable	4,400,000	-	-	-	-	-	-	-	4,400,000	-
Cash dividends declaration (Note 21)	-	-	-	-	-	-	(130,230,000)	-	(130,230,000)	(463,100,000)
Reversal of appropriated retained earnings	-	-	-	-	-	-	200,000,000	(200,000,000)	-	-
<b>BALANCES AS AT DECEMBER 31, 2019</b>	<b>P6,335,683,333</b>	<b>(P7,338,937)</b>	<b>(P41,503,044)</b>	<b>P1,688,543,008</b>	<b>P854,620,762</b>	<b>P2,494,321,789</b>	<b>P1,562,270,564</b>	<b>P1,100,000,000</b>	<b>P11,492,275,686</b>	<b>P3,362,420,875</b>
										<b>P14,854,696,561</b>

See accompanying Notes to Consolidated Financial Statements.



**ALSONS CONSOLIDATED RESOURCES, INC. AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**

	Years Ended December 31		
	2019	2018	2017
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Income before income tax	₱1,041,189,089	₱702,683,751	₱281,359,989
Adjustments for:			
Finance charges (Note 26)	1,081,013,732	1,185,892,672	1,200,295,515
Depreciation (Note 25)	1,076,834,280	871,947,014	881,533,932
Interest income (Notes 7 and 18)	(118,193,175)	(62,966,406)	(37,863,224)
Share in earnings of associate (Note 11)	(70,629,805)	(32,888,825)	—
Unrealized foreign exchange loss - net	42,545,740	19,831,361	1,474,920
Movements in net retirement assets and retirement benefits liabilities (Notes 24 and 28)	10,607,843	14,400,380	1,962,756
Gain on sale of property, plant and equipment and investments in real estate (Note 27)	(1,168,423)	(866,268)	(1,829,595)
Recovery of impairment loss on real estate inventories due to sale (Notes 10 and 27)	(663,673)	(483,328)	(1,172,249)
Dividend income (Note 27)	—	(264,000,000)	—
Gain on sale of investment (Notes 11 and 27)	—	—	(34,339,109)
Recovery of impairment loss on investment due to sale (Note 27)	—	—	(13,725,000)
Operating income before working capital changes	3,061,535,608	2,433,550,351	2,277,697,935
Decrease (increase) in:			
Trade and other receivables	(284,185,625)	(193,160,226)	(93,699,757)
Contract assets	(51,248,236)	(192,236,514)	—
Real estate inventories	158,429	7,478,620	9,498,425
Spare parts and supplies	39,801,142	4,589,914	(35,681,892)
Prepaid expenses and other current assets	(86,707,479)	18,908,947	1,504,811
Increase (decrease) in accounts payable and other current liabilities	(27,319,059)	1,042,683,391	2,262,457,072
Cash generated from operations	2,652,034,780	3,121,814,483	4,421,776,594
Income taxes paid including creditable withholding taxes	(185,661,723)	(132,455,874)	(194,705,758)
Net cash flows from operating activities	2,466,373,056	2,989,358,609	4,227,070,836
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Grant (collection) of advances to related parties	(283,139,830)	368,617,121	(253,993,200)
Interest received	118,193,175	62,966,406	32,527,366
Dividend received (Note 11)	83,000,000	—	—
Additions to:			
Property, plant and equipment (Notes 12 and 35)	(2,875,644,571)	(5,533,532,154)	(4,633,150,298)
Investments in real estate (Note 10)	(94,468)	(10,469,468)	(5,019,774)
Investments in associates (Note 11)	(2,977,452)	—	(1,000,000)
Computer software	(4,003,566)	(2,004,952)	(8,604,103)
Proceeds from disposals of:			
Property, plant and equipment	6,609,830	3,749,744	2,117,591
Equity investments designated at FVOCI	—	6,929,732	—
Interest in a subsidiary without loss of control (Note 1)	—	—	2,116,805,184
Investment in associate (Note 11)	—	—	48,064,109
Withdrawal of (additions to) short-term cash investments (Note 7)	77,032,800	(14,657,135)	(199,877,387)
Proceeds from disposal of (additions to) other noncurrent assets	98,020,769	(93,716,753)	(57,043,578)
Additions to advances to contractors	(300,471,599)	(97,932,769)	—
Proceeds from insurance claims	—	—	29,538,950
Net cash flows used in investing activities	(3,083,474,912)	(5,310,050,228)	(2,929,635,140)

(Forward)



	Years Ended December 31		
	2019	2018	2017
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
Availment of loans and long-term debts (Notes 17, 18 and 35)	₱5,324,436,224	₱9,820,762,994	₱3,979,777,962
Payments of:			
Loans and long-term debts (Note 35)	(3,495,991,558)	(6,191,165,896)	(1,860,220,000)
Interest expense (Notes 30 and 35)	(1,068,765,898)	(1,164,350,296)	(1,497,323,519)
Dividends (Notes 21 and 35)	(629,930,000)	(567,493,994)	(325,664,000)
Debt issue costs (Note 18)	(103,131,983)	(40,272,212)	(206,030,383)
Principal portion of lease liability (Note 30)	(10,274,664)	—	—
Additions to interest reserve account (Notes 15 and 18)	(49,508,647)	(442,770,196)	(183,468,889)
Proceeds from additional investment in a subsidiary (Note 1)	—	—	1,125,000,000
Net cash flows from (used in) financing activities	(33,166,526)	1,414,710,400	1,032,071,171
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	(650,268,382)	(905,981,219)	2,329,506,867
<b>EFFECT OF FOREIGN EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS</b>	(9,732,820)	(3,258,988)	3,708,665
<b>CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR</b>	3,474,561,841	4,383,802,048	2,050,586,516
<b>CASH AND CASH EQUIVALENTS AT END OF YEAR (Note 7)</b>	₱2,814,560,639	₱3,474,561,841	₱4,383,802,048

See accompanying Notes to Consolidated Financial Statements.



# **ALSONS CONSOLIDATED RESOURCES, INC. AND SUBSIDIARIES** **NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

## **1. General Information**

### Corporate Information

Alsons Consolidated Resources, Inc. (ACR or Parent Company) is a stock corporation organized on December 24, 1974 as Victoria Gold Mining Corporation to engage in the business of exploration of oil, petroleum and other mineral products. The corporate name was changed to Terra Grande Resources, Inc. in March 1995 and to Alsons Consolidated Resources, Inc. in June 1995 to mark the entry of the Alcantara Group. ACR's primary purpose was consequently changed to that of an investment holding company and oil exploration was relegated as a secondary purpose.

ACR's ultimate parent company is Alsons Corporation (AC), a company incorporated in the Philippines.

The registered office address of ACR is Alsons Building, 2286 Chino Roces Avenue, Makati City, Metro Manila, Philippines.

The consolidated financial statements include the accounts of ACR and the subsidiaries (collectively referred to as "the Group") listed in the table below:

Subsidiaries	Nature of business	Percentage of Ownership			
		2019		2018	
		Direct	Indirect	Direct	Indirect
Alsons Thermal Energy Corporation (ATEC)	Investment holding	50.00*	—	50.00*	—
Sarangani Energy Corporation (Sarangani)	Power generation	—	37.50	—	37.50
ACES Technical Services Corporation (ACES)	Management services	—	50.00	—	50.00
San Ramon Power Inc. (SRPI)	Power generation	—	50.00	—	50.00
Conal Holdings Corporation (CHC)	Investment holding	100.00	—	100.00	—
Alsing Power Holdings, Inc. (APHI)	Investment holding	20.00	80.00	20.00	80.00
Western Mindanao Power Corporation (WMPC)	Power generation	—	55.00	—	55.00
Southern Philippines Power Corporation (SPPC)	Power generation	—	55.00	—	55.00
Alto Power Management Corporation (APMC)	Management services	—	60.00	—	60.00
APMC International Limited (AIL)	Management services	—	100.00	—	100.00
Mapalad Power Corporation (MPC)	Power generation	—	100.00	—	100.00
FGen Northern Power Corp. (FGNPC)	Power generation	—	60.00	—	60.00
Alsons Renewable Energy Corporation (AREC)	Investment holding	80.00	—	80.00	—
Siguil Hydro Power Corporation (Siguil)	Power generation	—	80.00	—	80.00
Kalaong Power Corporation (Kalaong)	Power generation	—	80.00	—	80.00
Bago Hydro Resources Corporation (Bago)	Power generation	—	80.00	—	—
Sindangan Zambo-River Power Corp. (Sindangan)	Power generation	—	80.00	—	—
Alsons Power International Limited (APIL)	Power generation	100.00	—	100.00	—
Alsons Land Corporation (ALC)	Real estate	99.55	—	99.55	—
MADE (Markets Developers), Inc. (MADE)	Distribution	80.44	—	80.44	—
Kamanga Agro-Industrial Ecozone Development Corporation (KAED)	Real estate	100.00	—	100.00	—
Alsons Power Supply Corporation (APSC)	Customer service	100.00	—	100.00	—

\*50% ownership interest plus 1 share of the voting and total outstanding capital stock.

Except for AIL and APIL, which are incorporated in the British Virgin Islands (BVI), all of the subsidiaries are incorporated in the Philippines.



Power and Energy

ATEC and Subsidiaries

*ATEC.* On November 23, 2015, ACR organized ATEC primarily to develop and invest in energy projects, including but not limited to the exploration, development and utilization of renewable energy resources with total capital infusion amounting to ₱1 million.

On October 13, 2016, ACR and ATEC executed an assignment of share agreement wherein the Parent Company assigned and transferred its ownership interests in ACES to ATEC for a total consideration of ₱20 million. Accordingly, ACES became wholly owned subsidiary of ATEC.

On May 24, 2017, ACR and ATEC executed an assignment of share agreement wherein ACR assigned and transferred its ownership interests in SRPI to ATEC amounting to ₱1.2 million for a total consideration of ₱0.3 million, net of subscriptions payable amounting to ₱0.9 million. Accordingly, SRPI became a wholly owned subsidiary of ATEC. Subsequently, on May 31, 2017, ACR and ATEC executed a deed of assignment of advances wherein ACR assigned to ATEC its advances to SRPI totaling to ₱231 million.

On November 27, 2017, the Parent Company sold its 50% ownership interest less 1 share of the voting and total outstanding capital stock in ATEC equivalent to 14,952,678 common shares to Global Business Power Corporation (GBPC) for a total consideration amounting to ₱2,378 million, inclusive of retention receivable amounting to ₱100 million to be received upon issuance by the Bureau of Internal Revenue (BIR) of the Certificate of Authorizing Registration (see Note 8). The Parent Company recognized a gain amounting to ₱709 million, net of transaction costs totaling to ₱169 million (see Note 21). Subsequently, on December 1, 2017, the Parent Company, GBPC and ATEC executed a deed of assignment of advances wherein the Parent Company assigned and transferred to GBPC its right to collect 50% of its advances to ATEC amounting to ₱1,880 million (see Note 16).

*Sarangani.* CHC organized Sarangani on October 15, 2010 as a wholly owned subsidiary to construct, commission and operate power generating plant facilities of electricity in Maasim, Sarangani Province. On June 27, 2011, ACR acquired full control of Sarangani through an agreement with CHC, wherein CHC assigned all its shares to ACR. On December 10, 2012, ACR entered into a shareholders agreement with Toyota Tsusho Corporation (TTC), a company incorporated in Japan, wherein TTC subscribed and paid ₱355 million worth of Sarangani shares representing 25% of the total equity of Sarangani. In accordance with the shareholders agreement, ACR increased its investment in Sarangani to 75% of the total equity of Sarangani by converting its advances and additional cash infusion.

The construction of the Sarangani's SM200 project is in two phases. Construction of Phase 1 (105 MW) of the Project commenced in January 2013 and was completed in April 2016. The construction of Phase 2 (105 MW) commenced in January 2017 and was completed in October 2019.

In 2015, ACR made additional cash infusion and conversion of advances totaling to ₱572 million, primarily to meet the funding requirements of Sarangani's SM200 project.

On April 20, 2016, ACR subscribed to ATEC's increase in authorized capital stock to the amount of ₱2,989 million worth of shares of stock. The subscription was paid by way of ACR's investment in Sarangani and cash amounting to ₱14 million.

On February 6, 2017, ATEC's BOD authorized the conversion its advances to Sarangani amounting to ₱3,375 million into equity by way of subscription to the increase in authorized capital stock of Sarangani. The Philippine SEC approved Sarangani's increase in authorized capital stock on



March 20, 2017. Also, TTC subscribed to additional common shares amounting to ₱1,125 million which was settled through cash infusion. As at December 31, 2019 and 2018, Sarangani is 75% owned by ATEC.

*SRPI.* ACR organized and incorporated SRPI on July 22, 2011 as a wholly owned subsidiary. SRPI was incorporated primarily to acquire, construct, commission, operate and maintain power-generating plants and related facilities for the generation of electricity. SRPI has obtained its Environmental Compliance Certificate (ECC) on March 20, 2012 for the planned 105 MW coal fired power plant to be located in Zamboanga Ecozone. As at March 19, 2020, the Company has not started the construction of the ZAM 100 power plant. The proposals for the Engineering, Procurement and Construction (EPC) rebidding were submitted on August 30, 2018. Selection of the contractor who will handle the construction of the project is expected to be concluded in March 2020. Meanwhile, the signing of contract and awarding of the Limited Notice to Proceed to the winning bidder is estimated to be in August 2020, with the issuance of Final Notice to Proceed in September 2020. The project is expected to be completed in May 2023.

*ACES.* ACR organized and incorporated ACES on July 7, 2011 primarily to provide operations and maintenance services to the Group's coal power plants.

*CHC and Subsidiaries.* The Board of Directors (BOD) of Northern Mindanao Power Corporation (NMPC), a subsidiary under CHC, approved on April 25, 2008 the amendments to NMPC's Articles of Incorporation to shorten its corporate life up to November 15, 2009. After November 15, 2009, NMPC was dissolved. Consequently, NMPC's remaining assets and liabilities have all been transferred to CHC's books as at December 31, 2009. CHC is responsible for the final liquidation of NMPC's net assets and the payment to the non-controlling shareholders. In 2013, CHC has fully liquidated the net distributable assets of NMPC and paid the non-controlling shareholders.

CHC organized and incorporated MPC on July 13, 2010 as a wholly owned subsidiary to rehabilitate and operate the 103 mega-watts (MW) Bunker-Fired Iligan Diesel Power Plants (IDPPs) I and II located in Iligan City. On June 27, 2011, ACR acquired full control of MPC through an agreement with CHC, wherein CHC assigned all shares to ACR. The deed of sale of IDPP with Iligan City Government was signed on February 27, 2013. On August 1, 2013, ACR transferred MPC to CHC for a total consideration of ₱0.3 million. MPC entered into Power Supply Agreements (PSAs) with various distribution utilities and electric cooperatives (see Note 33). On September 6, 2013, MPC started operating 98 MW of the 103 MW Bunker-Fired IDPPs. MPC completed the rehabilitation and operated the balance of 5 MW in 2014.

On July 7, 2015, CHC subscribed and paid 60% of FGNPC's outstanding common shares amounting to ₱0.04 million. Investment of non-controlling interest amounted to ₱0.02 million.

SPPC and WMPC are Independent Power Producers (IPPs) with Energy Conversion Agreements (ECAs) with the Philippine government through the National Power Corporation (NPC). SPPC's and WMPC's ECAs ended on April 28, 2016 and December 12, 2015, respectively (see Note 33).

*AREC and Subsidiaries*

*AREC.* On September 18, 2014, ACR organized AREC primarily to develop and invest in energy projects including but not limited to the exploration, development and utilization of renewable energy resources with total capital infusion amounting to ₱31 million.

On July 10, 2015, ACR and AREC executed an assignment of share agreement wherein ACR assigned and transferred its ownership interests in Siguil and Kalaong to AREC. Accordingly, Siguil and Kalaong became subsidiaries of AREC. Also, ACR sold its 20% interest to ACIL, Inc., an entity under common control. Accordingly, ACR's interest in AREC was reduced from 100% to 80%.





*Siguil and Kalaong.* ACR organized and incorporated Siguil and Kalaong on July 22, 2011 as wholly owned subsidiaries. Siguil and Kalaong were incorporated primarily to develop and invest in energy projects including but not limited to the exploration, development and utilization of renewable energy resources. Siguil's 15 MW Hydro Power Project is in Maasim, Sarangani while Kalaong's 22 MW Hydro Power Project is in Bago, Negros Oriental. These projects are expected to augment power supply in the cities of General Santos and Bacolod, respectively, once they are completed. In July 2019, Siguil has commenced its construction and expected to be completed in July 2022. As at March 19, 2020, Siguil and Kalaong have not yet started commercial operations.

*Bago and Sindangan.* AREC organized and incorporated Bago and Sindangan on February 26, 2018 and August 31, 2018, respectively, as wholly owned subsidiaries. Bago and Sindangan were incorporated primarily to develop and invest in energy projects including but not limited to the exploration, development and utilization of renewable energy resources. Bago's 42 MW Hydro Power Project is in Negros Occidental while Sindangan's 20 MW Hydro Power Project is in Siayan and Duminag, Zamboanga Del Norte. These projects are expected to augment power supply in the provinces of Negros Occidental and Zamboanga Del Norte, respectively, once they are completed. As at March 19, 2020, Bago and Sindangan have not yet started commercial operations.

#### Property Development

*ALC.* On November 25, 1994, ACR incorporated ALC to acquire, develop, sell and hold for investment or otherwise, real estate of all kinds, sublease office spaces and manufacture door and house frames.

*KAED.* On September 3, 2010, ACR incorporated KAED to establish, develop, operate and maintain an agro-industrial economic zone and provides the required infrastructure facilities and utilities such as power and water supply and distribution system, sewerage and drainage system, waste management system, pollution control device, communication facilities and other facilities as may be required for an agro-industrial economic zone.

#### Other Investments

*MADE.* MADE, which is in the distribution business, has incurred significant losses in prior years resulting in capital deficiency. Because of the recurring losses, MADE decided to cease operations effective April 30, 2006 and terminated its employees. These factors indicate the existence of a material uncertainty which may cast significant doubt on the MADE's ability to continue as a going concern. As at March 19, 2020, MADE has no plans to liquidate but new business initiatives are being pursued which will justify resumption of its trading operations.

*APSC.* ACR organized and incorporated APSC on October 13, 2016 primarily to provide services necessary or appropriate in relation to the supply and delivery of electricity.

#### Approval and Authorization for the Issuance of the Consolidated Financial Statements

The consolidated financial statements were authorized for issuance by the BOD on March 19, 2020.

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## **2. Basis of Preparation and Statement of Compliance**

### Basis of Preparation

The consolidated financial statements of the Group have been prepared on a historical cost basis, except for equity investments designated at fair value through other comprehensive income (FVOCI)/ available-for-sale (AFS) financial assets that have been measured at fair value. The consolidated financial statements are presented in Philippine peso, the functional and presentation currency of the Parent Company. All amounts are rounded to the nearest peso, except as otherwise indicated.



#### Statement of Compliance

The consolidated financial statements of the Group have been prepared in compliance with Philippine Financial Reporting Standards (PFRSs), which include the availment of the relief granted by the SEC under Memorandum Circular Nos. 14-2018 as discussed in Note 4.

#### Basis of Consolidation

The consolidated financial statements comprise the financial statements of the Parent Company and its subsidiaries as at December 31 of each year (see Note 1).

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 in the consolidated financial statements from the date the Group gains control until the date the Group ceases to control the subsidiary.

Profit or loss and each component of other comprehensive income (OCI) are attributable to equity holders of the parent of the Group and to non-controlling interests, even if this results in the non-controlling interests having a deficit balance. When necessary, adjustments are made to financial statements of subsidiaries to bring their accounting policies into line with the Group's accounting policies. All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

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

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

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

Non-controlling interests represent the portion of profits or losses and net assets of subsidiaries not held by the equity holders of the Parent Company and are presented separately in the consolidated statement of income and consolidated statement of comprehensive income and within equity in the consolidated statement of financial position, separately from equity attributable to the equity holders of the Parent Company.





### Material Partly-Owned Subsidiaries

The tables below show details of materially partly owned subsidiaries of ACR either directly or indirectly:

Name of Subsidiary	Place of Incorporation and Operation	Principal Activity	Proportion Ownership Interest and Voting Rights Held by Non-controlling Interests		
			2019	2018	2017
SPPC	Philippines	Power generation	45.0%	45.0%	45.0%
WMPC	Philippines	Power generation	45.0%	45.0%	45.0%
ATEC	Philippines	Holding Company	50.0%	50.0%	100.0%
Sarangani	Philippines	Power generation	62.5%	62.5%	25.0%

The summarized financial information in respect of the subsidiaries that have material non-controlling interests is set out below. The summarized financial information below represents amounts before intra-group eliminations.

Summarized statements of financial position as at December 31 are as follows:

	2019			2018		
	SPPC	WMPC	ATEC*	SPPC	WMPC	ATEC*
<i>(Amounts in Thousands)</i>						
Current assets	₱146,633	₱650,033	₱4,010,757	₱181,366	₱701,101	₱3,940,237
Noncurrent assets	268,987	374,544	28,196,622	316,737	447,237	25,870,607
Current liabilities	(37,516)	(211,434)	(7,971,094)	(38,092)	(538,524)	(6,685,461)
Noncurrent liabilities	(76,741)	(100,717)	(16,470,124)	(84,525)	(91,311)	(15,856,382)
Equity	₱301,363	₱712,426	₱7,766,161	₱375,486	₱518,503	₱7,269,001
Equity attributable to:						
Equity holders of the Parent Company	₱164,435	₱380,032	₱5,077,425	₱205,203	₱273,374	₱4,730,633
Non-controlling interests	136,928	332,394	2,688,736	170,283	245,129	2,538,368
	₱301,363	₱712,426	₱7,766,161	₱375,486	₱518,503	₱7,269,001

\*Based on consolidated balances of ATEC and its subsidiaries.

Summarized statements of comprehensive income for each of the three years in the period ended December 31 are as follows:

	2019			2018			2017		
	SPPC	WMPC	ATEC*	SPPC	WMPC	ATEC*	SPPC	WMPC	ATEC*
<i>(Amounts in Thousands)</i>									
Revenue and other income	₱318	₱1,147,694	₱4,785,056	₱160,831	₱1,394,881	₱4,728,173	₱522,471	₱1,454,871	₱4,168,083
Expenses	(87,379)	(869,249)	(3,482,135)	(200,603)	(1,366,385)	(3,866,115)	(391,061)	(1,341,781)	(3,756,956)
Benefit from (provision for) income tax	12,265	(83,133)	(77,573)	(8,134)	(24,407)	(57,899)	(35,056)	(42,391)	(33,452)
Net income	(74,796)	195,312	1,225,348	(47,906)	4,089	804,159	96,354	70,699	377,675
Other comprehensive income (loss)	673	(1,389)	(13,187)	3,926	(10,215)	917	(876)	(498)	(470)
Total comprehensive income (loss)	(₱74,123)	₱193,923	₱1,212,161	(₱43,980)	(₱6,126)	₱805,076	₱95,478	₱70,201	₱377,205
Equity holders of the Parent Company	(₱40,768)	₱106,658	₱450,896	(₱24,189)	(₱3,369)	₱299,414	₱52,513	₱38,611	₱261,663
Non-controlling interests	(33,355)	87,265	761,265	(19,791)	(2,757)	505,662	42,965	31,590	115,542
	(₱74,123)	₱193,923	₱1,212,161	(₱43,980)	(₱6,126)	₱805,076	₱95,478	₱70,201	₱377,205

\*Based on consolidated balances of ATEC and its subsidiaries.



Summarized statements of cash flows for each of the three years in the period ended December 31 are as follows:

	2019			2018			2017		
	SPPC	WMPC	ATEC*	SPPC	WMPC	ATEC*	SPPC	WMPC	ATEC*
	<i>(Amounts in Thousands)</i>								
Operating	(P30,689)	P214,731	P1,908,551	P7,117	P73,588	P1,508,653	P263,694	P70,659	P1,777,377
Investing	6,776	(55,912)	(2,299,504)	20,357	(84,212)	(4,529,582)	176,389	158,143	(4,940,797)
Financing	2,388	(200,589)	(84,962)	(102,912)	(9,516)	4,290,802	(407,779)	(157,804)	2,666,911
Net increase (decrease) in cash and cash equivalents	(P21,525)	(P41,770)	(P475,915)	(P75,438)	(P20,140)	P1,269,873	P32,304	P70,998	(P496,509)
Dividends paid to non-controlling interests	P-	P-	P185,000	P-	P22,500	P497,500	P157,500	P67,500	P-

\*Based on consolidated balances of ATEC and its subsidiaries.

### 3. Changes in Accounting Policies and Disclosures

#### *New Standards Effective Starting January 1, 2019*

The accounting policies adopted are consistent with those of the previous financial year, except that the Group has adopted the following new pronouncements starting January 1, 2019. Adoption of these pronouncements did not have any significant impact on the Group's financial position or performance, unless otherwise indicated.

- PFRS 16, *Leases*

PFRS 16, *Leases*, supersedes PAS 17, *Leases*, Philippine Interpretation International Financial Reporting Interpretations Committee (IFRIC) 4, *Determining whether an Arrangement contains a Lease*, Standing Interpretations Committee (SIC) 15, *Operating Leases-Incentives* and Philippine Interpretation SIC-27, *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*. The standard sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to recognize most leases on the consolidated statement of financial position.

The Group adopted PFRS 16 using the modified retrospective approach in 2019 and elects to apply the standard to contracts that were previously identified as leases applying PAS 17 and Philippine Interpretation IFRIC 4. The Group will therefore not apply the standard to contracts that were not previously identified as containing a lease applying PAS 17 and Philippine Interpretation IFRIC 4.

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

Increase in consolidated statement of financial position:

Right-of-use assets (Note 12)	P35,274,144
Lease liability (Note 30)	35,274,144

The Group has lease contracts for office spaces. Before the adoption of PFRS 16, the Group classified each of its leases (as lessee) at the inception date as either a finance lease or an operating lease.

Upon adoption of PFRS 16, the Group applied a single recognition and measurement approach for all leases except for short-term leases and leases of low-value assets. Refer to Note 4 for the accounting policy beginning January 1, 2019.



*Leases previously accounted for as operating leases*

The Group recognized right-of-use assets and lease liabilities for those leases previously classified as operating leases, except for short-term leases and leases of low-value assets. The right-of-use assets were recognized based on the amount equal to the lease liabilities. Lease liabilities were recognized based on the present value of the remaining lease payments, discounted using the incremental borrowing rate at the date of initial application.

The Group also applied the available practical expedients wherein it:

- Used a single discount rate to a portfolio of leases with reasonably similar characteristics
- Relied on its assessment of whether leases are onerous immediately before the date of initial application
- Applied the short-term leases exemptions to leases with lease term that ends within 12 months of the date of initial application
- Excluded the initial direct costs from the measurement of the right-of-use asset at the date of initial application
- Used hindsight in determining the lease term where the contract contained options to extend or terminate the lease

Based on the above, as at January 1, 2019:

- Right-of-use assets of ₱35.27 million were recognized and presented as part of “Property, plant and equipment”.
- Lease liability of ₱35.27 million was recognized.
- Deferred tax liability on right-of-use assets increased by ₱10.58 million while deferred tax asset on lease liability increased by the same amount.

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

Operating lease commitments as at December 31, 2018	₱42,053,783
Less: Short-term lease commitments	(1,877,508)
Operating lease commitments as at January 1, 2019	40,176,275
Incremental borrowing rate at January 1, 2019	8.76%
Lease liabilities recognized at January 1, 2019	₱35,274,144

Due to the adoption of PFRS 16, the Group’s operating profit in 2019 will improve, while its interest expense will increase. This is due to the change in the accounting for rent expense related to leases that were classified as operating leases under PAS 17.

The adoption of PFRS 16 will not have an impact on equity in 2019, since the Group elected to measure the right-of-use assets at an amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments relating to that lease recognized in the statement of financial position immediately before the date of initial application.

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

Philippine Interpretation IFRIC 23, *Uncertainty over Income Tax Treatments*, addresses the accounting for income taxes when tax treatments involve uncertainty that affects the application of PAS 12, *Income Taxes*, and does not apply to taxes or levies outside the scope of PAS 12, nor does it specifically include requirements relating to interest and penalties associated with uncertain tax treatments.



The interpretation specifically addresses the following:

- whether an entity considers uncertain tax treatments separately
- the assumptions an entity makes about the examination of tax treatments by taxation authorities
- how an entity determines taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates
- how an entity considers changes in facts and circumstances

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

Upon adoption of the Interpretation, the Group has assessed whether it has any uncertain tax position. The Group applies significant judgment in identifying uncertainties over its income tax treatments. The Group determined, based on its assessment, that it is probable that its income tax treatments will be accepted by the taxation authorities or if not probable, the impact is not significant to the consolidated financial statements.

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

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

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

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

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

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



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

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

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

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

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

These amendments did not have significant impact on the consolidated financial statements of the Group.

- Annual Improvements to PFRSs 2015-2017 Cycle

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

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

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

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





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

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

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

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

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

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

The adoption of this amendment resulted to additional capitalized borrowing costs relating to general borrowings amounting to ₱197 million in 2019.

#### 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 the consolidated financial statements. The Group intends to adopt the following pronouncements when they become effective.

#### *Effective beginning on or after January 1, 2020*

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

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

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

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



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

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

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

*Effective beginning on or after January 1, 2021*

- PFRS 17, *Insurance Contracts*

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

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

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

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

The amendments are not applicable to the Group since none of the entities within the Group have activities that are predominantly connected with insurance or issue 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*.

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



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

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#### 4. Summary of Significant Accounting and Financial Reporting Policies

##### Current versus Noncurrent Classification

The Group presents assets and liabilities in the consolidated statements of financial position based on current or noncurrent classification.

An asset is current when it is:

- expected to be realized or intended to be sold or consumed in the normal operating cycle;
- held primarily for the purpose of trading;
- expected to be realized within twelve months after the reporting period; or
- cash or cash equivalent unless restricted from being exchanged or used to settle a liability for at least twelve months after the reporting period.

All other assets are classified as noncurrent.

A liability is current when it is:

- expected to be settled in the normal operating cycle;
- held primarily for the purpose of trading;
- expected to be settled within twelve months after the reporting period; or
- there is no unconditional right to defer settlement of the liability for at least twelve months after the reporting period.

The Group classifies all other liabilities as noncurrent.

Deferred tax assets and liabilities and retirement benefits assets and liabilities are classified as noncurrent assets and liabilities, respectively.

##### Fair Value Measurement

The Group measures financial instruments, such as derivatives, at fair value at each statement of financial position date. Also, fair values of financial and non-financial instruments are disclosed in Note 32.

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 by the Group.

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



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

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

Assets and liabilities for which fair value is measured or disclosed in the consolidated financial statements are categorized within the fair value hierarchy, described as follows, based on the lowest level of 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 of input that is significant to the fair value measurement is directly or indirectly observable; and
- Level 3 - Valuation techniques for which the lowest level of input that is significant to the fair value measurement is unobservable.

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

The Group determines the policies and procedures for both recurring and non-recurring fair value measurements. 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.

#### Cash and Cash Equivalents

Cash include cash on hand and in banks. Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash with original maturities of three months or less from dates of acquisitions and are subject to an insignificant risk of changes in value.

#### Short-term Cash Investments

Short-term cash investments are short-term, highly liquid investments that are convertible to known amounts of cash with original maturities of more than three months but less than one year from the date of acquisition and that are subject to an insignificant risk of change in value.

### ***Financial Instruments - initial recognition and subsequent measurement effective January 1, 2018***

#### Financial Instrument

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity investments of another entity.

#### Financial Assets

##### *Initial recognition and measurement of financial assets*

Financial assets are classified, at initial recognition, as subsequently measured at amortized cost, FVOCI and fair value through profit or loss (FVPL). 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 FVOCI, it needs to give rise to cash flows that are 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.

*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 FVOCI with recycling of cumulative gains and losses (debt instruments)
- Financial assets designated at FVOCI with no recycling of cumulative gains and losses upon derecognition (equity investments)
- Financial assets at FVPL

The Group has financial instruments classified as financial assets at FVOCI but has no financial assets at FVPL.

*Financial assets at amortized cost*

This category is the most relevant to the Group. The Group measures financial assets at amortized cost if both of the following conditions are met:

- The financial asset is held within a business model with the objective to hold financial assets in order to collect contractual cash flows; and
- The contractual terms of the financial asset give rise on specified dates to cash flows that are SPPI on the principal amount outstanding.

Financial assets at amortized cost are subsequently measured using the effective interest method and are subject to impairment. Gains and losses are recognized in profit or loss when the asset is derecognized, modified or impaired.

The Group's financial assets at amortized cost include cash and cash equivalents, short-term cash investments, receivables, deposits in interest reserve account, due from related parties and retention receivable.

*Financial assets designated at FVOCI (equity investments).* Upon initial recognition, the Group can elect to classify irrevocably its equity investments as equity investments designated at FVOCI 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 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 investments designated at FVOCI are not subject to impairment assessment.

The Group elected to classify irrevocably its quoted and unquoted equity investments under this category.



## Financial Liabilities

### *Initial recognition and measurement*

Financial liabilities are classified, at initial recognition, as financial liabilities at FVPL, 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 and, in the case of other financial liabilities, net of directly attributable transaction costs.

The Group's financial liabilities include accounts payables and other current liabilities (excluding statutory payables), loans payable, short-term notes payable, long-term debt and lease liability.

### *Subsequent measurement*

After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortized cost using the effective interest method. Gains and losses are recognized in profit or loss when the liabilities are derecognized as well as through the EIR amortization process. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR. The EIR amortization is included as interest expense in profit or loss.

## Impairment of Financial Assets

The Group recognizes an allowance for expected credit losses (ECLs) for all debt instruments not held at 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, 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. (a) 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 12 months (a 12-month ECL). (b) 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 timing of the default (a lifetime ECL).

For trade receivables and contract assets, the Group applies a simplified approach in calculating ECLs. Therefore, the Group does not track changes in credit risk, but instead recognizes a loss allowance based on lifetime ECLs at each reporting date. The Group has established a provision matrix that is based on its historical credit loss experience, adjusted for forward-looking factors specific to debtors and the economic environment. For receivables from real estate sales, ECL is computed using vintage analysis.

The Group considers a financial asset in default when contractual payments are 90 days past due. However, in certain cases, the Group may also consider a financial asset to be in default when internal or external information indicates that the Group is unlikely to receive the outstanding contractual cash flows in full before taking into account any credit enhancements held by the Group. A financial asset is written off when there is no reasonable expectation of recovering the contractual cash flows.

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



For other financial assets such as due from related parties and recoverable deposits, 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 expected 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 remaining life of the exposure, irrespective of the timing of default (a lifetime ECL).

#### Derecognition of Financial Assets and Liabilities

##### *Financial assets*

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

- the Group's right to receive cash flows from the asset has 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 right to receive cash flows from the asset and either (a) has transferred substantially all the risks and rewards of the assets, or (b) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

Where the Group has transferred its right to receive cash flows from an asset and has entered into a "pass-through" arrangement, and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognized to the extent of the Group's continuing involvement in the asset. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

##### *Financial liability*

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

#### Offsetting of 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 set off the recognized amounts and there is intention to settle on a net basis, or to realize the asset and settle the liability simultaneously. The Group assesses that it has a currently enforceable right of offset if the right is not contingent on a future event, and is legally enforceable in the normal course of business, event of default, and event of insolvency or bankruptcy of the Group and all of the counterparties.

#### ***Financial Instruments - initial recognition and subsequent measurement prior to January 1, 2018***

##### *Date of recognition*

The Group recognizes a financial asset in the consolidated statement of financial position when it becomes a party to the contractual provisions of the instrument. In the case of a regular way purchase or sale of financial assets, recognition and derecognition, as applicable, is done using settlement date



accounting. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period generally established by regulation or convention in the market place. Derivatives are recognized on a trade date basis.

*Initial recognition of financial instrument*

Financial instruments are recognized initially at fair value. Except for financial assets and financial liabilities at FVPL, the initial measurement of financial instruments includes transaction costs.

Financial instruments are classified as liability or equity in accordance with the substance of the contractual arrangement. Interest, 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 any related income tax benefits.

*“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 statement of income unless it qualifies for recognition as some other type of asset. In cases where use is made of data which is not observable, the difference between the transaction price and model value is only recognized in the consolidated statement of income when the inputs become observable or when the instrument is derecognized. For each transaction, the Group determines the appropriate method of recognizing the “Day 1” difference amount.

Categories of Financial Instruments

The Group classifies its financial assets in the following categories: financial assets at FVPL, loans and receivables, AFS financial assets and held-to-maturity (HTM) investments. Financial liabilities are further classified as financial liabilities at FVPL or other financial liabilities. The classification depends on the purpose for which the investments are acquired and whether they are quoted in an active market. Management determines the classification of its financial assets and liabilities at initial recognition and, where allowed and appropriate, re-evaluates such designation at every reporting date.

The Group has no HTM investments prior to January 1, 2018.

*Financial assets and liabilities at FVPL*

Financial assets and liabilities at FVPL include financial assets and liabilities held for trading and financial assets designated upon initial recognition as at FVPL and derivative instruments.

Financial assets and liabilities are classified as held for trading if they are acquired for the purpose of selling and 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 or a financial guarantee contract.

Financial assets and liabilities may be designated by management at initial recognition as at FVPL when any of the following criteria is 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;





- The assets and liabilities are part of a group of financial assets, financial liabilities, or both, which are managed and their performance are evaluated on a fair value basis, in accordance with a documented risk management or investment strategy; or
- 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.

The Group has no financial assets and liabilities at FVPL prior to January 1, 2018.

#### *Loans and receivables*

Loans and receivables are nonderivative 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 financial assets or financial assets at FVPL.

After initial measurement, loans and receivables are subsequently measured at amortized cost using the effective interest method, less allowance for impairment. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees that are integral parts of the EIR. Gains and losses are recognized in the consolidated statement of income when the loans and receivables are derecognized or impaired, as well as through the amortization process. Included in this category are the Group's cash and cash equivalents, short-term cash investments, trade and other receivables, and refundable deposits (included as part of "Other noncurrent assets" account).

#### *AFS financial assets*

AFS financial assets are nonderivative financial assets that are designated as such or are not classified 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 unrealized gains or losses recognized as other comprehensive income in the consolidated statement of comprehensive income until the investment is derecognized or determined to be impaired, at which time the cumulative gain or loss is recognized in the consolidated statement of income.

When the AFS financial asset is disposed of, the cumulative unrealized gain or loss previously recognized in equity is recognized as "Realized gain (loss) on AFS financial assets" in the consolidated statement of income. 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. Dividends earned on holding AFS financial assets are recognized in the consolidated statement of income as "Dividend income" when the right to the payment has been established. The losses arising from impairment of such investments are recognized as "Impairment loss on AFS financial assets" in the consolidated statement of income.

Included in this category are the Group's investments in quoted and unquoted equity securities.

#### *Other financial liabilities*

This category pertains to financial liabilities that are not held for trading or designated as FVPL upon inception of the liability and contain contractual obligations to deliver cash or another financial asset to the holder or to settle the obligation other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of own equity shares. The components of issued financial



instruments that contain both liability and equity elements are accounted for separately, with the equity component being assigned the residual amount after deducting from the instrument as a whole the amount separately determined as the fair value of the liability component on the date of issue.

These include liabilities arising from operations (e.g., accounts payable and accrued liabilities, excluding withholding taxes and other taxes payable to government agencies) and loans and borrowings. All loans and borrowings are initially recognized at fair value less debt issue costs associated with the borrowings.

After initial recognition, interest-bearing loans and borrowings are subsequently 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 debt issue costs that are an integral part of the effective interest method. Gains and losses are recognized in profit or loss when the liabilities are derecognized as well as through the amortization process.

Debt issue costs are shown as a contra account against long-term debts and are amortized over the terms of the related borrowings using the effective interest method.

The portion of the debt issue costs attributable to the undrawn portion is deferred and is being amortized over the commitment period on a straight-line basis. However, if it is probable at inception that the facility will be utilized, the debt issue cost will be amortized over the term of the related borrowings using the effective interest method. Debt issue costs pertaining to current portion of the long-term debts are classified as current liabilities; otherwise, these are classified as noncurrent liabilities.

Included in this category are the Group's accounts payable and other current liabilities (excluding statutory payables), loans payable, short-term notes payable and long-term debts.

#### Impairment of Financial Assets

The Group assesses at each statement of financial position date whether there is objective evidence that a financial asset or 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 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*

For loans and receivables carried at amortized cost, the Group first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the Group determines that no objective evidence of impairment exists for individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses 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 for impairment.



If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows (excluding future expected credit losses that have not been incurred). The present value of the estimated future cash flows is discounted at the financial asset's original EIR. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current EIR.

The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognized in the consolidated statement of income. Interest income continues to be accrued on the reduced carrying amount and is accrued using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. The interest income is recorded in the consolidated statement of income. Loans and receivables together with the associated allowance are written off when there is no realistic prospect of future recovery and all collateral has been realized or has been transferred to the Group. If, in a subsequent year, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognized, the previously recognized impairment loss is increased or reduced by adjusting the allowance account. If a future write-off is later recovered, the recovery is presented as "Gain on recovery of bad debts" under other income (charges) in the consolidated statement of income.

#### *AFS financial assets*

In the case of equity investments classified as AFS, impairment would include a significant or prolonged decline in the fair value of the investments below its cost. The Group treats "significant" generally as 20% or more and "prolonged" as greater than 12 months for quoted equity securities. Where there is evidence of impairment loss, the cumulative loss - measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognized in the consolidated statement of income - is removed from OCI and recognized in profit or loss. Impairment losses on equity investments are not reversed in the consolidated statement of income. Increases in their fair value after impairment are recognized directly in the consolidated statement of comprehensive income.

#### Derecognition of Financial Assets and Liabilities

##### *Financial assets*

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

- the Group's right to receive cash flows from the asset has 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 right to receive cash flows from the asset and either (a) has transferred substantially all the risks and rewards of the assets, or (b) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

Where the Group has transferred its right to receive cash flows from an asset and has entered into a "pass-through" arrangement, and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognized to the extent of the Group's continuing involvement in the asset. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.



#### *Financial liability*

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

#### Offsetting of Financial Instruments

Financial assets and financial liabilities are offset and the net amount is reported in the consolidated statement of financial position if there is a currently enforceable legal right to set off the recognized amounts and there is intention to settle on a net basis, or to realize the asset and settle the liability simultaneously. The Group assesses that it has a currently enforceable right of offset if the right is not contingent on a future event, and is legally enforceable in the normal course of business, event of default, and event of insolvency or bankruptcy of the Group and all of the counterparties.

#### Derivative Financial Instrument

A derivative is a financial instrument or other contract with all three of the following characteristics:

- a. its value changes in response to the change in a specified interest rate, financial instrument price, commodity price, foreign exchange rate, index of prices or rates, credit rating or credit index, or other variable, provided in the case of a nonfinancial variable that the variable is not specific to a party to the contract (sometimes called the “underlying”);
- b. it requires no initial net investment or an initial net investment that is smaller than would be required for other types of contracts that would be expected to have a similar response to changes in market factors; and,
- c. it is settled at a future date.

Derivative instruments (including bifurcated embedded derivatives) are initially recognized at fair value on the date in which a derivative transaction is entered into or bifurcated, and are subsequently re-measured at fair value. Changes in fair value of derivative instruments not accounted for as hedges are recognized immediately in the consolidated statement of income. Derivatives are carried as assets when the fair value is positive and as liabilities when the fair value is negative.

#### *Embedded derivatives*

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. An embedded derivative is separated from the host contract and accounted for as a derivative if all of the following conditions are met: (a) the economic characteristics and risks of the embedded derivative are not closely related to the economic characteristics and risks of the host contract; (b) a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative; and (c) the hybrid or combined instrument is not measured at fair value with changes in fair value reported in the consolidated statement of income. Subsequent reassessment is prohibited unless there is a change in the terms of the contract that significantly modifies the cash flows that otherwise would be required under the contract, in which case reassessment is required. The Group determines whether a modification to cash flows is significant by considering the extent to which the expected future cash flows associated with the embedded, the host contract or both have changed and whether the change is significant relative to the previously expected cash flows on the contract.

The Group has no embedded derivatives which are required to be bifurcated.



#### Classification of Financial Instruments between Debt and Equity

A financial instrument is classified as debt if it provides for a contractual obligation to:

- deliver cash or another financial asset to another entity;
- exchange financial assets or financial liabilities with another entity under conditions that are potentially unfavorable to the Group; or
- satisfy the obligation other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of own equity shares.

If the Group does not have an unconditional right to avoid delivering cash or another financial asset to settle its contractual obligation, the obligation meets the definition of a financial liability.

#### Spare Parts and Supplies

Spare parts and supplies are valued at the lower of cost and net realizable value (NRV). Cost is determined using the weighted average cost method. NRV is the current replacement cost.

When the circumstances that previously caused the spare parts and supplies to be written down below cost no longer exist, or when there is clear evidence of an increase in NRV because of changes in economic circumstances, the amount of write-down is reversed. The reversal cannot be greater than the amount of the original write-down.

#### Real Estate Inventories

Real estate inventories representing real estate opened up for sale are carried at the lower of cost and NRV. The cost includes acquisition cost of the land, direct development cost incurred, including borrowing costs and any other directly attributable costs of bringing the assets to its intended use. NRV is the estimated selling price in the ordinary course of business, less estimated cost to sell. A write-down of inventories is recognized in consolidated statement of income when the cost of the real estate inventories exceeds its NRV.

Repossessed inventories are measured at cost at the time of original sale. The Company avails of the relief granted by SEC to defer the adoption of accounting for cancellation of real estate sales as discussed in PIC Q&A No. 2018-14, which requires repossessed inventories to be measured at either fair value less cost to repossess or fair value plus repossession cost.

#### Investments in Real Estate

Investments in real estate comprise land, building and improvements which are not occupied substantially for use by, or in operations of the Group, nor for sale in the ordinary course of business, but are held primarily to earn rental income and for capital appreciation. Cost includes acquisition cost of the land and any other directly attributable costs of bringing the asset to its intended use.

Subsequent to initial recognition, investments in real estate, except land, are measured at cost less accumulated depreciation and impairment loss. Land is carried at cost less any impairment in value.

Building and improvements are depreciated using the straight-line method over the estimated useful life of five (5) years to fifteen (15) years.

Investments in real estate are derecognized when either these have been disposed of or when the investment in real estate is permanently withdrawn from use and no future economic benefit is expected from its disposal. Any gains or losses on the retirement or disposal of an investment in real estate are recognized in the consolidated statement of income in the year of retirement or disposal.



Transfers are made to investments in real estate when, and only when, there is a change in use, evidenced by ending of owner-occupation or commencement of an operating lease to another party. Transfers are made from investments in real estate when, and only when, there is a change in use, evidenced by commencement of owner-occupation or commencement of development with a view to sale. These transfers are recorded using the carrying amount of the investments in real estate at the date of change in use.

#### Investments in Associates

An associate is an entity in which the Group has 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 is not control or joint control over these policies.

The consideration made in determining significant influence is similar to those necessary to determine control over subsidiaries.

The Group's investments in associates are accounted for under the equity method of accounting. Under the equity method, the investments in associates are carried in the consolidated statement of financial position at cost plus post-acquisition changes in the Group's share of net assets of the associates, less any impairment in value. Goodwill relating to an associate is included in the carrying amount of the investment and is not amortized. After application of the equity method, the Group determines whether it is necessary to recognize any additional impairment loss with respect to the Group's net investment in the associate. The consolidated statement of income reflects the Group's share of the financial performance of the associates. Unrealized gains and losses from transactions with the associates are eliminated to the extent of the Group's interest in the associates. The reporting dates of the associates and the Group are identical and the associates' accounting policies conform to those used by the Group for like transactions and events in similar circumstances.

An investment in an associate is accounted for using the equity method from the date when it becomes an associate. On acquisition of the investment, any difference between the cost of the investment and the investor's share in the net fair value of the associate's identifiable assets, liabilities and contingent liabilities is accounted for as follows:

- a. Goodwill relating to an associate is included in the carrying amount of the investment. However, amortization of that goodwill is not permitted and is therefore not included in the determination of the Group's share in the associate's profit or losses.
- b. Any excess of the Group's share in the fair value of the associate's identifiable assets, liabilities, and contingent liabilities over the cost of the investment is included as income in the determination of the investor's share of the associate's profit or loss in the period in which the investment is acquired.

Also, appropriate adjustments to the Group's share of the associate's profit or loss after acquisition are made to account, if any, for the depreciation of the depreciable assets based on their fair values at the acquisition date and for impairment losses recognized by the associate, such as for goodwill or property, plant and equipment.

When the Group's interest in an investment in associate is reduced to zero, additional losses are provided only to the extent that the Group has incurred obligations or made payments on behalf of the associate to satisfy obligations of the investee that the Group has guaranteed or otherwise committed. If the associate subsequently reports profits, the Group resumes recognizing its share of the profits if it equals the share of net losses not recognized.



The Group discontinues the use of the equity method from the date when it ceases to have significant influence over an associate and accounts for the investment in accordance with PAS 39 from that date, provided the associate does not become subsidiary or a joint venture. Upon loss of significant influence over the associate, the Group measures and recognizes any retained investment at its fair value. Any difference between the carrying amount of the associate upon loss of significant influence and the fair value of the retained investment and proceeds from disposal is recognized in the consolidated statement of income.

#### Property, Plant and Equipment

The Group's property, plant and equipment consist of land, buildings, leasehold improvements, machinery and equipment, construction in progress and right-of-use asset that do not qualify as investment properties.

Property, plant and equipment, except for land, are carried at cost less accumulated depreciation and accumulated impairment losses, if any. Land is carried at cost less any impairment in value. The initial cost of property, plant and equipment comprises its construction cost or purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use, including borrowing costs. Likewise, when a major inspection is performed, its cost is recognized in the carrying amount of the property, plant and equipment as a replacement if the recognition criteria are satisfied. All other repair and maintenance costs are recognized in the consolidated statement of income as incurred. The present value of the expected cost for the decommissioning of the asset after its use is included in the cost of the respective asset if the recognition criteria for a provision are met.

Land is carried at cost less any impairment losses.

Depreciation of an item of property, plant and equipment begins when it becomes available for use, i.e., when it is in the location and condition necessary for it to be capable of operating in the manner intended by management. Depreciation ceases at the earlier of the date that the item is classified as held for sale (or included in a disposal group that is classified as held for sale) and the date the item is derecognized.

Property, plant and equipment are depreciated using the straight-line method over their expected economic useful lives. Each part of an item of property, plant and equipment with a cost that is significant in relation to the total cost of the item is depreciated separately.

The components of the power plant complex and their related estimated useful lives are as follows:

	Number of Years
Main engine, transmission lines and sub-station	12 - 28
Plant mechanical, electrical, switchyard and desulfurization equipment	28
Plant structures and others	28

Other property, plant and equipment are depreciated using the straight-line method over the following estimated useful lives:

	Number of Years
Buildings	10
Leasehold improvements	5 or term of the lease, whichever period is shorter



	Number of Years
Machinery and other equipment:	
Machinery and equipment	5 - 10
Office furniture, fixtures and equipment	3 - 5
Transportation equipment	3 - 5

Construction in progress represents properties under construction and is stated at cost. Cost includes cost of construction and other direct costs. Construction in progress is depreciated when the asset is available for use.

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

The assets' residual values, useful lives and methods of depreciation are reviewed at each financial year-end, and adjusted prospectively if appropriate.

Fully depreciated assets are retained in the accounts until these are no longer in use.

*Right-of-use assets (Effective January 1, 2019)*

The Group recognizes right-of-use assets at the commencement date of the lease (i.e., the date the underlying asset is available for use). Right-of-use assets are initially measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities. The initial cost of right-of-use assets includes the amount of lease liabilities recognized, initial direct costs incurred, lease payments made at or before the commencement date less any lease incentives received and estimate of costs to be incurred by the lessee in dismantling and removing the underlying asset, restoring the site on which it is located or restoring the underlying asset to the condition required by the terms and conditions of the lease, unless those costs are incurred to produce inventories. Unless the Group is reasonably certain to obtain ownership of the leased asset at the end of the lease term, the recognized right-of-use assets are depreciated on a straight-line basis over the shorter of their estimated useful life and lease term.

Right-of-use assets are subject to impairment.

Business Combinations and Goodwill

Business combinations are accounted for using the acquisition method.

*Initial measurement*

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 Group elects to measure the non-controlling interest in the acquiree either at fair value or at the proportionate share of the acquiree's identifiable net assets.

Acquisition-related costs incurred such as finder's fees; advisory, legal, accounting, valuation and other professional or consulting fees; general administrative costs, including the costs of maintaining an internal acquisitions department or business development offices are expensed and included as part of "General and administrative expenses" account in the consolidated statement of income.





When the Group acquires a business, it assesses the financial assets acquired 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 previously held equity interest in the acquiree is remeasured at its acquisition date fair value and any resulting gain or loss is recognized in the consolidated statement of income.

Any contingent consideration to be transferred by the acquirer will be recognized at fair value at the acquisition date. Contingent consideration classified as an asset or liability that is a financial instrument and within the scope of PFRS 9 is measured at fair value with the changes in fair value recognized either in the consolidated statement of income. If the contingent consideration is not within the scope of PFRS 39, it is measured in accordance with appropriate PFRSs. Contingent consideration that is classified as equity is not 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 the fair value of the net assets acquired is in excess of the aggregate consideration transferred, the Group re-assesses whether it has correctly identified all of the assets acquired and all of the liabilities assumed and reviews the procedures used to measure the amounts to be recognized at the acquisition date. If the reassessment still results in an excess of the fair value of net assets acquired over the aggregate consideration transferred, then the gain is recognized in the consolidated statement of income.

If the initial accounting for business combination can be determined only provisionally by the end of the period by 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 Group accounts for the combination using provisional values. Adjustments to these provisional values because of completing the initial accounting shall be made within 12 months from the acquisition date. The carrying amount of an identifiable asset, liability or contingent liability that is recognized as a result of completing the initial accounting shall be calculated as if the asset, liability or contingent liability's fair value at the acquisition date had been recognized from that date. Goodwill or any gain recognized shall be adjusted from the acquisition date 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.

#### *Subsequent measurement*

Following initial recognition, goodwill is measured at cost less any accumulated impairment losses. 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 group of units. Each unit or group of units to which the goodwill is allocated:

- represents the lowest level within the Group at which the goodwill is monitored for internal management purposes; and
- is not larger than a segment based on the Group's format determined in accordance with PFRS 8, *Operating Segments*.



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 this circumstance is measured based on the relative values of the operation disposed of and the portion of the cash-generating unit retained.

When subsidiaries are sold, the difference between the selling price and the net assets plus cumulative translation differences and goodwill is recognized as income or loss in the consolidated statement of income.

Goodwill is reviewed for impairment, annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired.

Impairment is determined for goodwill 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 of the CGU or group of CGUs to which goodwill has been allocated, an impairment loss is recognized. Impairment losses relating to goodwill cannot be reversed in future periods. The Group performs its impairment test of goodwill annually every December 31.

#### Computer Software

Computer software (included as part of "Other noncurrent assets" account) is initially recognized at cost. Following initial recognition, computer software is carried at cost less accumulated amortization and accumulated impairment losses, if any.

The software cost is amortized on a straight-line basis over its useful economic life of three (3) years and assessed for impairment whenever there is an indicator that the computer software may be impaired. The amortization commences when the computer software is available for use. The amortization period and method for the computer software are reviewed at each reporting date.

Changes in the expected useful life is accounted for by changing the amortization period as appropriate, and treated as changes in accounting estimates. The amortization expense is recognized in the consolidated statement of income.

#### Impairment of Nonfinancial Assets

The Group assesses at each reporting date whether there is an indication that a nonfinancial asset may be impaired. If any such indication exists and when annual impairment testing for an asset is required, the Group makes an estimate of the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's cash-generating unit's fair value less cost to sell or its value-in-use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. When the carrying amount of an asset exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. In assessing value-in-use, the estimated future cash flows are discounted to their present value using a pretax discount rate that reflects current market assessment of the time value of money and the risks specific to the asset. In determining fair value less cost to sell, recent market transactions are taken into account, if available. If no such transaction can be identified, an appropriate valuation model is used. These calculations are corroborated by valuation multiples and other available fair value indicators. Any impairment loss is recognized in the consolidated statement of income in those expense categories consistent with the function of the impaired asset.

An assessment is made at each reporting date as to whether there is any indication that previously recognized impairment losses may no longer exist or may have decreased. If such indication exists, the Group makes an estimate of recoverable amount. A previously recognized impairment loss is



reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognized. If that is the case, the carrying amount of the asset is increased to its recoverable amount. That increased amount cannot exceed the carrying amount that would have been determined, net of depreciation and amortization, had no impairment loss been recognized for the asset in prior years. Such reversal is recognized in the consolidated statement of income unless the asset is carried at revalued amount, in which case the reversal is treated as a revaluation increase.

The Group determines whether it is necessary to recognize an additional impairment loss on the Group's investments in associates after application of the equity method. The Group determines at each statement of financial position date whether there is any objective evidence that the investments in associates are impaired. If this is the case, the Group calculates the amount of impairment as being the difference between the fair value of the investment in associate and the acquisition cost (adjusted for post-acquisition changes in the Group's share of the financial performance of the associates) and recognizes the difference in the consolidated statement of income.

#### Capital Stock

Capital stock is measured at par value for all shares issued. Incremental costs incurred directly attributable to the issuance of new shares are shown in equity as deduction from proceeds, net of tax. Proceeds and/or fair value of considerations received in excess of par value, if any, are recognized as additional paid-in capital.

#### Redeemable Preferred Shares

In determining whether a preferred share is a financial liability or an equity investment, the Group assesses the particular rights attaching to the share to determine whether it exhibits the fundamental characteristic of a financial liability. A preferred share that provides for mandatory redemption by the Group for a fixed or determinable amount at a fixed or determinable future date, or gives the holder the right to require the Group to redeem the instrument at or after a particular date for a fixed or determinable amount, is a financial liability. Redeemable preferred shares is presented as equity when the option for redeeming the redeemable preferred shares is at the issuer's discretion and the price of redemption is to be decided by the BOD.

#### Retained Earnings

Retained earnings include accumulated profits attributable to the equity holders of the Parent Company reduced by dividends declared. Retained earnings may also include effect of changes in accounting policy as may be required by the standard's transitional provisions. When the retained earnings account has a debit balance, it is called "deficit". A deficit is not an asset but a deduction from equity.

Unappropriated retained earnings represent that portion which is free and can be declared as dividends to stockholders. Appropriated retained earnings are restricted for specific purposes that are approved by the BOD and are not available for dividend distributions.

#### Cash Dividend and Non-cash Distribution to Equity Holders of the Parent Company

The Parent Company recognizes a liability to make cash or non-cash distributions to equity holders of the Parent Company when the distribution is authorized and the distribution is no longer at the discretion of the Parent Company. A distribution is authorized when it is approved by the BOD. A corresponding amount is recognized directly in equity.

Non-cash distributions are measured at the fair value of the assets to be distributed with fair value re-measurement recognized directly in equity.



Upon distribution of non-cash assets, any difference between the carrying amount of the liability and the carrying amount of the assets distributed is recognized in the consolidated statement of income.

Revenue Recognition (Upon Adoption of PFRS 15 Beginning January 1, 2018)

Revenue from contracts with customers is recognized when control of the goods or services are transferred to the customer at an amount that reflects the consideration to which the Group expects to be entitled in exchange for those goods or services. The Group has concluded that it is the principal in its revenue arrangements because it controls the goods or services before transferring them to the customer.

*Energy sales.* Revenue from contracts with customers is recognized whenever the Group's power generation capacity is contracted and/or the electricity generated by the Group is transmitted through the transmission line designated by the buyer for a consideration. The Group has concluded that it is acting as a principal in all its revenue arrangements since it is the primary obligor in all the revenue arrangements, has pricing latitude and is also exposed to credit risks.

The contracted capacity as agreed in the PSA and the energy delivered to customers are separately identified. These two performance obligations are combined and considered as one performance obligation since these are not distinct within the context of PFRS 15 as the buyer cannot benefit from the contracted capacity without the corresponding energy and the buyer cannot obtain energy without contracting a capacity. The combined performance obligation qualifies as a series of distinct goods or services that are substantially the same and have the same pattern of transfer since the delivery of energy every month are distinct services which are all recognized over time and have the same measure of progress.

*Real estate sales.* The Group derives its real estate sales from sale of lots. Revenue from the sale of these real estate projects under pre-completion stage are recognized over time during the construction period (or percentage of completion) since based on the terms and conditions of its contract with the buyers, the Group's performance does not create an asset with an alternative use and the Group has an enforceable right to payment for performance completed to date.

*Contract balances*

*Receivables.* A receivable represents the Group's right to an amount of consideration that is unconditional (i.e., only the passage of time is required before payment of the consideration is due).

*Contract assets.* Contract assets pertain to the Group's conditional right over the consideration for the completed performance for which revenue was already recognized but not yet billed to the customers. The amounts recognized as contract assets from energy sales will be reduced gradually at the time the related amount billed, billable and/or collected from the customers under the contract is greater than the revenue earned and recognized.

*Contract liabilities.* A contract liability is the obligation to transfer goods or services to a customer for which the Group has received consideration (or an amount of consideration is due) from the customer. If a customer pays consideration before the Group transfers goods or services to the customer, a contract liability is recognized when the payment is made or the payment is due (whichever is earlier). Contract liabilities are recognized as revenue when the Group performs its obligations under the contract. The contract liabilities also include payments received by the Group from the customers for which revenue recognition has not yet commenced.



*Cost to obtain a contract.* The Group pays sales commission and transportation to its marketing agents on the sale of real estate units. The Group has elected to apply the optional practical expedient for costs to obtain a contract which allows the Group to immediately expense sales commissions (included under "Operating expenses") because the amortization period of the asset that the Group otherwise would have used is one (1) year or less.

#### Revenue Recognition (Prior to Adoption of PFRS 15)

Revenue is recognized to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured. Regardless of when the payment is being made, revenue is measured at fair value of the consideration received or receivable, taking into account contractually defined terms of payment and excluding taxes or duty. The Group assesses its revenue recognition arrangements against specific criteria in order to determine if it is acting as principal or agent. The Group has concluded that it is acting as a principal in all its arrangements.

*Energy sales.* Revenue from PSAs consist of fixed capital recovery fee, fixed and variable operation and maintenance fee, actual fuel cost and other variable energy fees. Revenues from fixed capital recovery fee and fixed operation and maintenance fee are recognized on a monthly basis in accordance with the terms of the PSAs. Revenue from actual fuel cost, and variable operations and maintenance and other energy fees are recognized upon delivery of power to customers.

*Real estate sales.* Revenue from sales of completed real estate projects is accounted for using the full accrual method. In accordance with PIC Q&A 2006-01, the percentage-of-completion method is used to recognize income from sales of projects where the Group has material obligations under the sales contract to complete the project after the property is sold, the equitable interest has been transferred to the buyer, construction is beyond preliminary stage (i.e., engineering, design work, construction contracts execution, site clearance and preparation, excavation and the building foundation are finished), and the costs incurred or to be incurred can be measured reliably. Under this method, revenue is recognized as the related obligations are fulfilled, measured principally on the basis of the physical proportion of contract work. The percentage of completion is determined by the Group's project engineers.

*Management fees.* Revenue from management services is recognized as the services are rendered in accordance with the terms of the agreements.

#### Rental Income

Rental income is recognized on a straight-line method over the term of the lease agreements.

#### Interest Income

Interest income is recognized as the interest accrues using the EIR.

#### Costs and Expenses

Costs and expenses are recognized in the consolidated statement of income when a decrease in future economic benefit related to a decrease of an asset or an increase of a liability has arisen that can be measured reliably. Costs and expenses are recognized in the consolidated statement of income on the basis of systematic and rational allocation procedures when economic benefits are expected to arise over several accounting periods and the association with income can only be broadly or indirectly determined; or immediately when expenditure produces no future economic benefits or when, and to the extent that, future economic benefits do not qualify, cease to qualify, for recognition in the consolidated statement of financial position as an asset.



### Retirement Benefits

The Group, excluding SPPC, WMPC and APMC, has an unfunded, noncontributory defined benefit retirement plan covering all qualified employees. SPPC, WMPC, and APMC have a funded, noncontributory defined benefit retirement plan covering all qualified employees. The Group's obligation and costs of retirement benefits are actuarially computed by professionally qualified independent actuary using the projected unit credit method. Actuarial gains and losses are recognized in full in the period in which these occur in OCI.

Defined benefit costs comprise the following:

- Service cost
- Net interest on the net retirement benefits obligation or asset
- Remeasurements on the net retirement benefits obligation or asset

Service costs which include current service costs, past service costs and gains or losses on non-routine settlements are recognized as expense in the consolidated statement of income. 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 applying the discount rate based on government bonds to the net defined benefit liability or asset. Net interest on the net defined benefit liability or asset is recognized as part of retirement cost in the consolidated statement of income.

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

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

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

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



Actuarial valuations are made with sufficient regularity that the amounts recognized in the consolidated financial statements do not differ materially from the amounts that would be determined at the statement of financial position date.

#### Lease Liability (Effective January 1, 2019)

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

In calculating the present value of lease payments, the Group uses the incremental borrowing rate at the lease commencement date if the interest rate implicit in the lease is not readily determinable. After the commencement date, the amount of lease liability is increased to reflect the accretion of interest and reduced for the lease payments made. In addition, the carrying amount of lease liability is remeasured if there is a modification, a change in the lease term, a change in the in-substance fixed lease payments or a change in the assessment to purchase the underlying asset.

#### *Short-term leases and leases of low-value assets*

The Group applies the short-term lease recognition exemption to its short-term leases (i.e., those leases that have a lease term of 12 months or less from the commencement date and do not contain a purchase option). It also applies the leases of low-value assets recognition exemption to leases of office equipment that are considered of low value (i.e., below ₱250,000). Lease payments on short-term leases and leases of low-value assets are recognized as expense on a straight-line basis over the lease term.

#### Leases (Effective prior to January 1, 2019)

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

Operating leases are recognized as expense on a straight-line basis over the lease term, except when another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed. Contingent rentals arising under operating leases are recognized as an expense in the period in which they are incurred.

In the event that lease incentives are received to enter into operating leases, such incentives are recognized as a liability. The aggregate benefit of incentives is recognized as a reduction of rental expense on a straight-line basis, except when another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

#### Foreign Currency-denominated Transactions and Translations

Transactions denominated in foreign currency are recorded in Philippine peso by applying to the foreign currency amount the exchange rate between the Philippine peso and the foreign currency at the date of transaction. Monetary assets and liabilities denominated in foreign currencies are restated using the closing rate of exchange at the statement of financial position date. Nonmonetary items denominated in foreign currency are translated using the exchange rates as at the date of initial transaction. All exchange rate differences are taken to the consolidated statement of income.



### Borrowing Costs

Borrowing costs are capitalized if they are directly attributable to the acquisition or construction of a qualifying asset. Capitalization of borrowing costs commences when the activities to prepare the asset are in progress and expenditures and borrowing costs are being incurred. Borrowing costs are capitalized until the assets are substantially ready for their intended use. If the carrying amount of the asset exceeds its recoverable amount, an impairment loss is recorded. Borrowing costs consist of interest and other costs that the Group incurs in connection with the borrowing of funds.

Borrowing costs not qualified for capitalization are expensed as incurred.

### Taxes

#### *Current income tax*

Current income tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the tax authority. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted at the statement of financial position date. Current income tax for current and prior periods shall, to the extent unpaid, be recognized as a liability and is presented as "Income tax payable" in the consolidated statement of financial position. If the amount already paid in respect of current and prior periods exceeds the amount due for those periods, the excess shall be recognized as an asset and is presented as part of "Other current assets" in the consolidated statement of financial position.

#### *Deferred income tax*

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

Deferred income tax liabilities are recognized for all taxable temporary differences, except:

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

Deferred income tax assets are recognized for all deductible temporary differences, carryforward benefits of unused tax credits from excess minimum corporate income tax (MCIT) over regular corporate income tax (RCIT) [excess MCIT] and net operating loss carryover (NOLCO).

Deferred income tax assets are recognized to the extent that it is probable that taxable income will be available against which the deductible temporary differences and carryforward benefits of excess MCIT and NOLCO can be utilized, except as summarized below.

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





The carrying amount of deferred income tax assets is reviewed at the end of each statement of financial position 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 income tax assets to be utilized. Unrecognized deferred income tax assets are reassessed at each statement of financial position date and are recognized to the extent that it has become probable that future taxable income will allow the deferred tax assets to be recovered.

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

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

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

#### *Value-added tax*

Revenues, expenses, and assets are recognized net of the amount of value-added tax (VAT), if applicable.

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

#### Provisions

##### *General*

Provisions are recognized when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation. When the Group expects some or all of provision to be reimbursed, the reimbursement is recognized as a separate asset but only when the reimbursement is virtually certain. The expense relating to any provision is presented in the consolidated statement of income, net of any reimbursement. If the effect of the time value of money is material, provisions are discounted using a current pre-tax rate that reflects, where appropriate, the risks specific to the liability.

Where discounting is used, the increase in the provisions due to the passage of time is recognized as an interest expense.

##### *Decommissioning liability*

The decommissioning liability arose from the WMPC's, SPPC's and Sarangani's obligation, under its ECC, to decommission or dismantle its power plant complex at the end of their operating lives. A corresponding asset is recognized as part of property, plant and equipment. Decommissioning costs are provided at the present value of expected costs to settle the obligation using estimated cash flows. The cash flows are discounted at a current pre-tax rate that reflects the risks specific to the decommissioning liability. The unwinding of the discount is expensed as incurred and recognized in the consolidated statement of income as an interest expense. The estimated future costs of decommissioning are reviewed annually and adjusted prospectively. Changes in the estimated future



costs or in the discount rate applied are added or deducted from the cost of the power plant complex. The amount deducted from the cost of the power plant complex, shall not exceed its carrying amount. If the decrease in the liability exceeds the carrying amount of the asset, the excess shall be recognized immediately in the consolidated statement of income.

#### Contingencies

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

#### Basic/Diluted Earnings Per Share

Basic/diluted earnings per share (EPS) is determined by dividing net income by the weighted average number of shares issued and outstanding after giving retroactive adjustment for any stock dividends and stock splits declared during the period. The Group has no financial instrument or other contract that may entitle its holder to common shares that would result to diluted EPS.

#### Business Segments

Operating segments are components of the Group: (a) that engage in business activities from which the Group may earn revenues and incur losses and expenses (including revenues and expenses relating to transactions with other components of the Group); (b) whose operating results are regularly reviewed by the Group's chief operating decision maker (CODM) to make decisions about resources to be allocated to the segment and assess its performance; and (c) for which discrete financial information is available. The Group's CODM is the Parent Company's BOD. The Parent Company's BOD regularly reviews the operating results of the business units to make decisions on resource allocation and assess performance.

The Group conducts its business activities into two main business segments: (1) Power and Energy and (2) Property Development. The Group's other activities consisting of product distribution and investment holding activities are shown in aggregate as "Other Investments".

#### *Segment assets and liabilities*

Segment assets include all operating assets used by a segment and consist principally of operating cash and cash equivalents, short-term cash investments, trade and other receivables, investments in real estate and real estate inventories, and property, plant and equipment, net of allowances and provision. Segment liabilities include all operating liabilities and consist principally of accounts payable and other liabilities. Segment assets and liabilities do not include deferred income taxes, investments and advances, and borrowings.

#### *Inter-segment transactions*

Segment revenue, segment expenses and segment performance include transfers among business segments. The transfers, if any, are accounted for at competitive market prices charged to unaffiliated customers for similar products. Such transfers are eliminated in consolidation.

#### Events After the End of Reporting Period

Events after the end of the reporting period that provide additional information about the Group's financial position at the end of the reporting period (adjusting events) are reflected in the consolidated financial statements. Events after the end of the reporting period that are not adjusting events are disclosed in the notes to consolidated financial statements when material.



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## 5. Significant Judgments, Accounting Estimates and Assumptions

The preparation of the consolidated financial statements requires management to make judgments, accounting estimates and assumptions that affect the reported amounts of revenue, expenses, assets and liabilities, and the disclosure of contingent liabilities, at the reporting date. However, uncertainty about these assumptions and estimates could result in outcomes that could require a material adjustment to the carrying amount of the asset or liability affected in the future.

Management believes the following represent a summary of these significant judgments, estimates and assumptions and related impact and associated risks in the consolidated financial statements.

### Judgments

In the process of applying the Group's accounting policies, management has made the following judgments, apart from those involving estimations, which has the most significant effect on the amounts recognized in the consolidated financial statements.

#### *Determination of appropriate deferred income tax rate*

Sarangani is entitled to a 5% gross income tax (GIT) rate on its total power sales provided that, as a Filipino company, 50% of its power output is sold to a Philippine Economic Zone Authority (PEZA)-registered export enterprises and qualified constructive exporters (see Note 33). Management believes that they will be able to meet the required sales of power output to a PEZA-registered export enterprises and qualified constructive exporters and will continue to preserve its entitlement to use the 5% GIT rate.

#### *Evaluating revenue from contracts with customers*

The Group applied the following judgements in the determination of the amount and timing of revenue recognition:

- *Identifying performance obligations*  
Under PFRS 15, for energy sales, the contracted capacity as agreed in the PSA and the energy delivered to customers are separately identified. These two performance obligations are combined and considered as one performance obligation since these are not distinct within the context of PFRS 15 as the buyer cannot benefit from the contracted capacity without the corresponding energy and the buyer cannot obtain energy without contracting a capacity. The combined performance obligation qualifies as a series of distinct goods or services that are substantially the same and have the same pattern of transfer since the delivery of energy every month are distinct services which are all recognized over time and have the same measure of progress.
- *Determining method to estimate variable consideration and assessing the constraint*  
Some contracts with customers provide unspecified quantity of energy, provisional Energy Regulatory Commission (ERC) rates, volume or prompt payment discounts and foreign exchange and consumer price index (CPI) adjustments in the monthly billing. Under PFRS 15, such provisions give rise to variable consideration. In estimating the variable consideration, the Group is required to use either the expected value method or the most likely amount method based on which method better predicts the amount of consideration to which it will be entitled. The expected value method of estimation takes into account a range of possible outcomes while the most likely amount is used when the outcome is binary. The variable consideration is estimated at contract inception and constrained until the associated uncertainty is subsequently resolved.



For prompt payment discount, the Group determined that the most likely method is the appropriate method to use in estimating the variable consideration given that there are few possible outcomes.

Foreign exchange adjustments in monthly fixed/variable overhead and fee for actual energy delivered (fuel cost, subject to consumer price index and forex adjustments) will be constrained since the amount of consideration is highly susceptible to factors outside the Group's influence (e.g., market movements for forex and consumer price index, and actual demand of the customer for energy) and the contract has a large number and broad range of possible consideration amounts. Reassessment will be made as the contract progresses.

Amount for the variable consideration will be included in the specific month the adjustments had occurred.

- *Allocation of variable consideration*

Variable consideration may be attributable to the entire contract or to a specific part of the contract. Revenue streams which are considered as series of distinct goods or services that are substantially the same and have the same pattern of transfer, the Group allocates the variable amount that is no longer subject to constraint to the satisfied portion (i.e., month) which forms part of the single performance obligation.

- *Timing of revenue recognition*

The Group concluded that revenue from energy sales is to be recognized over time because the customers simultaneously receives and consumes the benefits as the Group supplies power.

- *Identifying methods for measuring progress of revenue recognized over time*

The Group determined that the output method is the best method in measuring progress as actual electricity is supplied to customers. The Group recognizes revenue based on:

- a. For fixed capacity payments, the Group allocates the transaction price on a straight-line basis over the contract term; and
- b. For the variable energy payment, actual kilowatt hours consumed which are billed on a monthly basis.

As a result of the adoption of PFRS 15 in 2018, the Group recognized adjustment to the retained earnings on January 1, 2018 amounting to ₱592 million and to non-controlling interest amounting to ₱249 million representing the difference between the amount that should be recognized as revenue on a straight-line basis as compared to the revenue based on billings.

*Assessment of control over its subsidiary*

Under PFRS 10, an investor controls an investee when the investor 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. On November 27, 2017, the Parent Company sold its 50% ownership interest less 1 share of the voting and total outstanding capital stock in ATEC to GBPC through the execution of deed of absolute sale of shares. The Parent Company has determined that it has retained control over ATEC since it has the power to direct the relevant activities of ATEC by virtue of a contractual agreement.

*Assessment of significant influence on investment with less than 20% of voting rights*

Prior to 2015, the Parent Company exercised significant influence on its interest in Indophil Resources, NL (IRNL) despite owning less than 20% interest by virtue of an Agreement for the Joint Voting of IRNL shares entered into with Alsons Prime Investment Corporation (APIC) and AC,



companies under the Alcantara Group, through the Alcantara Group's representation in the BOD of IRNL. Accordingly, the Parent Company accounted for its investment in IRNL as part of "Investments in associates" with carrying value amounting to ₱1,213 million.

In 2015, the Parent Company acquired an interest in Indophil Resources Philippines, Inc. (IRPI) through the swap of its interest in IRNL for an interest in IRPI. While the Parent Company holds less than 20% interest in IRPI, the Parent Company assessed that it exercises significant influence over IRPI because of its representation in the BOD of IRPI and representations in the BOD and Operating Committee of the operating subsidiary of IRPI. Accordingly, the Parent Company accounts for its investment in IRPI as part of "Investments in associates", with carrying value amounting to ₱1,216 million and ₱1,213 million as at December 31, 2019 and 2018, respectively (see Note 11).

*Distinction between real estate inventories and investments in real estate*

The Group determines whether a property will be classified as real estate inventories or investments in real estate as follows:

- Real estate inventory comprises property that is held for sale in the ordinary course of business. Principally, this is residential property that the Group develops and intends to sell before or on completion of construction.
- Investments in real estate comprise land and building which are not occupied substantially for use by, or in the operations of the Group, nor for sale in the ordinary course of business, but are held primarily to earn rental income and for capital appreciation.

As at December 31, 2019 and 2018, the carrying values of the Group's investments in real estate and real estate inventories amounted to ₱823 million (see Note 10).

Estimates and Assumptions

The key assumptions concerning the future and other key sources of estimation uncertainty at the statement of financial position date, that have a significant risk causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

*Provision for expected credit losses on trade receivables (PFRS 9)*

The Group uses a provision matrix to calculate ECLs for trade receivables. The provision rates are based on days past due for groupings of various customer segments that have similar loss patterns. The provision matrix is initially based on the Group's historical observed default rates. The Group calibrates the matrix to adjust the historical credit loss experience with forward-looking information. At every reporting date, the historical observed default rates are updated and changes in forward-looking estimates are analyzed.

The assessment of the correlation between observed default rates, forecast economic conditions and ECLs is a significant estimate. The amount of ECLs is sensitive to changes in circumstances and of forecast economic conditions. The Group's historical credit loss experience and forecast of economic conditions may also not be representative of the customer's actual default in the future. Trade receivables and contract assets amounted to ₱2,760 million, net of allowance for impairment losses of ₱65 million and ₱2,406 million, net of allowance for impairment losses of ₱65 million as of December 31, 2019 and 2018, respectively (see Note 8).

*Estimation of NRV of inventories*

Inventories are valued at the lower of cost and NRV. For spare parts and supplies, allowance for inventory obsolescence and losses are maintained at a level considered adequate to provide for potentially nonvaluable items. The level of allowance is based on the turnover/movement of specific inventories and other physical factors affecting usefulness of specific inventories.



For real estate inventories, determining the net realizable value requires the determination of cash flows from the expected sale of the asset less cost of marketing. The determination of net realizable value requires the Group to make estimates and assumptions that may materially affect the consolidated financial statements such as the estimated selling prices of the real estate inventories and estimated cost of marketing. Future events could cause the Group to conclude that these assets are impaired. Any resulting additional impairment loss could have a material impact on the Group's financial position and performance.

The carrying values of spare parts and supplies amounted to ₱643 million and ₱683 million as at December 31, 2019 and 2018, respectively (see Note 9). The carrying values of real estate inventories amounted to ₱632 million as at December 31, 2019 and 2018 (see Note 10).

*Estimation of useful lives of property, plant and equipment and investments in real estate*

The useful lives of the property, plant and equipment and investments in real estate are estimated based on the period over which the property, plant and equipment are expected to be available for use and on the collective assessment of industry practice, internal technical evaluation and experience with similar assets.

The estimated useful lives of property, plant and equipment and investments in real estate are reviewed periodically and updated if expectations differ materially from previous estimates due to physical wear and tear, technical or commercial obsolescence and legal or other limits on the use of the property, plant and equipment and investments in real estate. It is possible that future financial performance could be materially affected by changes in the estimates brought about by changes in factors mentioned above. The amounts and timing of recording of expenses for any period would be affected by changes in these factors and circumstances. A reduction in the estimated useful lives of the property, plant and equipment and investments in real estate would increase the recorded expenses and decrease the carrying values of the property, plant and equipment and investments in real estate.

The carrying values of property, plant and equipment and investments in real estate totalled to ₱29,288 million and ₱27,329 million as at December 31, 2019 and 2018, respectively (see Notes 10 and 12).

*Impairment of nonfinancial assets (except goodwill)*

An impairment review is performed when certain impairment indicators are present. These factors include, among others:

- a. investments in real estate and property, plant and equipment:
  - Significant underperformance relative to the future sales performance and projected operating results; and
  - Significant negative industry or market trends.
- b. investment in associates

Impairment exists when the carrying value exceeds its recoverable amount, which is the higher of its fair value less costs of disposal and its value-in-use.

The Group is required to make estimates and assumptions that can materially affect the consolidated financial statements when determining the value-in-use of nonfinancial assets, which require the determination of future cash flows expected to be generated from the continued use and ultimate disposition of such assets. Future events could cause the Group to conclude that such financial assets are impaired. Any resulting impairment loss could have a material adverse impact on the Group's financial position and performance.



Based on management's evaluation in 2019 and 2018, the Group's nonfinancial assets with carrying values as at December 31 as follows are not impaired:

	2019	2018
	<i>(In Millions)</i>	
Property, plant and equipment (Note 12)	<b>₱29,097</b>	<b>₱27,138</b>
Investments in associates (Note 11)	<b>2,198</b>	<b>2,210</b>
Investments in real estate (Note 10)	<b>191</b>	<b>191</b>
	<b>₱31,486</b>	<b>₱29,539</b>

*Impairment of goodwill*

The Group determines whether goodwill is impaired at least on an annual basis, or more frequently, if events or changes in circumstances indicate that it may be impaired. This requires an estimation of the value-in-use of the cash-generating units to which the goodwill is allocated.

Estimating the value-in-use requires the Group to make an estimate of the expected future cash flows from the cash-generating unit and also to choose a suitable discount rate in order to calculate the present value of those cash flows.

No impairment loss on goodwill was recognized in 2019 and 2018. The carrying amount of goodwill amounted to ₱807 million as at December 31, 2019 and 2018 (see Note 14).

*Estimation of retirement benefits cost and obligation and accrued compensation absences*

The determination of the retirement benefits cost and obligation and accrued compensated absences is dependent on the selection of certain assumptions used by the actuary in calculating such amounts. Those assumptions, which include among others, discount rates and future salary increase, are described in Note 28. While the Group believes that the assumptions are reasonable and appropriate, significant differences in the actual experience or significant changes in the assumptions may materially affect the retirement obligations and accrued compensated absences.

The Group obtained actuarial valuation reports in 2019 and 2018. Total net retirement assets of SPPC and WMPC amounted to ₱18 million and ₱20 million as at December 31, 2019 and 2018, respectively, and net retirement liability of APMC amounted to ₱12 million and ₱3 million as at December 31, 2019 and 2018, respectively (see Note 28). Total retirement benefits liabilities of the Parent Company, ALC, MPC and Sarangani amounted to ₱62 million and ₱35 million as at December 31, 2019 and 2018, respectively (see Note 28). Retirement benefits costs recognized in the consolidated statements of income amounted to ₱15 million in 2019 and 2018 and ₱13 million in 2017, respectively (see Notes 24 and 28). Accrued compensated absences amounted to ₱20 million and ₱14 million as at December 31, 2019 and 2018, respectively (see Note 28).

*Estimation of decommissioning liability*

The decommissioning liability arises from WMPC's, SPPC's and Sarangani's obligation, under its ECC, to decommission or dismantle its power plant complex at the end of their operating lives. A corresponding asset is recognized as part of property, plant and equipment. Decommissioning costs are provided at the present value of expected costs to settle the obligation using estimated cash flows. The cash flows are discounted at a current pre-tax rate that reflects the risks specific to the decommissioning liability. The unwinding of the discount is expensed as incurred and recognized in the consolidated statement of income as an interest expense. The estimated future costs of decommissioning are reviewed annually and adjusted prospectively. Changes in the estimated future costs or in the discount rate applied are added or deducted from the cost of the power plant complex. The amount deducted from the cost of the power plant complex, shall not exceed its carrying amount.



If the decrease in the liability exceeds the carrying amount of the asset, the excess shall be recognized immediately in the consolidated statements of income. Decommissioning liability as at December 31, 2019 and 2018 amounted to ₱375 million and ₱199 million, respectively (see Note 19).

*Estimation and recognition of deferred income tax assets*

The Group's assessment on the recognition of deferred income tax assets on deductible temporary differences is based on the forecasted taxable income of the following year. This forecast is based on the Group's past results and future expectations on revenues and expenses.

In prior years, SPPC and WMPC determined that the use of Optional Standard Deduction (OSD) would be advantageous based on their forecast. Deferred income taxes on items considered in determining gross income for income tax purposes were computed using an effective tax rate of 18% and deferred income taxes on items not part of gross income for income tax purposes were not recognized. Starting 2018, SPPC and WMPC reverted to the use of itemized deduction because based on management's estimate, the use of OSD is no longer beneficial to SPPC and WMPC. Accordingly, the tax rate used in determining deferred income tax is at 30%.

Deferred income tax assets amounted to ₱76 million and ₱43 million as at December 31, 2019 and 2018, respectively. Also, the Group has unrecognized NOLCO, excess MCIT and deductible temporary differences as at December 31, 2019 and 2018 as disclosed in Note 29.

*Valuation of unquoted equity investments designated as financial assets at FVOCI*

In valuing the Group's unquoted investments at FVOCI especially the Group's investment in Aldevino in compliance with PFRS 9, management applied judgment in selecting the valuation technique and used assumptions in estimating the fair value of its equity investments considering the information available to the Group. The key assumptions used in the valuation are disclosed in Notes 13 and 32.

As of December 31, 2019 and 2018, the Group's unquoted equity investment in Aldevinco amounted to ₱2,200 million (see Note 13 and 32).

*Legal contingencies*

The Group is involved in certain legal proceedings. The estimate of the probable costs for the assessment and resolution of these possible claims has been developed in consultation with outside counsel handling the defense in these matters and is based upon thorough analysis of potential results. There are no provisions for probable losses arising from contingencies recognized in the Group's consolidated financial statements as management believes that the resolution will not materially affect the Group's financial position and performance (see Note 34).

*Recognition of contingent assets*

The Group evaluates contingent assets that arise from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Group.

Contingent assets are assessed continually to ensure that developments are appropriately reflected in the consolidated financial statements. If it has become virtually certain that an inflow of economic benefits will arise, the asset and the related income are recognized in the consolidated financial statements of the period in which the change occurs. If an inflow of economic benefits has become probable, an entity discloses the contingent assets.

As of December 31, 2019 and 2018, management believes that the Group's claim from NPC is not yet virtually certain as it requires further review of the Commission on Audit (COA) and





appropriation of funds for NPC to settle the amount of the claim. However, the inflow of economic benefits relating to the said claim has been assessed as probable. Hence, the contingent asset has been disclosed in Note 8.

## 6. Segment Information and Revenue from Contracts with Customers

### Segment Information

The Group conducts its business activities in two main business segments: (1) Power and Energy and (2) Property Development. The Group's other activities consisting of product distribution and investment holding activities are shown in aggregate as "Other investments".

Information with regard to the Group's significant business segments are shown below:

### 2019

	Power and Energy	Property Development	Other Investments	Total	Eliminations	Consolidated
<i>(Amounts in Thousands)</i>						
<b>Earnings Information</b>						
Revenues						
External customer	₱6,781,110	₱12,986	₱-	₱6,796,096	₱-	₱6,796,096
Inter-segment	261,187	5,098	420,732	687,017	(687,017)	-
Total revenues	7,042,297	18,084	420,732	7,481,113	(685,017)	6,796,096
Interest income	74,374	851	43,964	119,189	(996)	118,193
Finance charges	737,904	-	561,729	1,299,633	(218,619)	1,081,014
Provision for (benefit from) income tax	141,766	497	(23,347)	118,916	(51,880)	67,036
Net income (loss)	1,306,099	(14,518)	(189,616)	1,101,965	(127,812)	974,153
<b>Other Information</b>						
Investments in associates and due from related parties	696,388	826,832	6,462,431	7,985,651	(4,387,767)	3,597,884
Segment assets	37,434,694	2,046,803	14,686,837	54,168,334	(8,559,120)	45,609,214
Segment liabilities	27,052,718	319,802	7,261,921	34,634,441	(3,879,924)	30,754,517
Depreciation	1,028,507	897	1,586	1,030,990	45,844	1,076,834
<b>Cash Flow Information</b>						
Net cash flows from (used in):						
Operating activities	2,316,549	28,642	(199,750)	2,145,441	320,932	2,466,373
Investing activities	(2,255,429)	(2,555)	56,207	(2,201,777)	(881,698)	(3,083,475)
Financing activities	(683,303)	433	119,399	(563,471)	530,304	(33,167)

### 2018

	Power and Energy	Property Development	Other Investments	Total	Eliminations	Consolidated
<i>(Amounts in Thousands)</i>						
<b>Earnings Information</b>						
Revenues						
External customer	₱6,632,711	₱33,560	₱-	₱6,666,271	₱-	₱6,666,271
Inter-segment	154,400	-	236,501	390,901	(390,901)	-
Total revenues	6,787,111	33,560	236,501	7,057,172	(390,901)	6,666,271
Interest income	36,183	1,263	49,337	86,783	(23,817)	62,966
Finance charges	820,634	-	616,765	1,437,399	(251,506)	1,185,893
Provision for (benefit from) income tax	83,720	377	9,740	93,837	45,894	139,731
Net income (loss)	754,258	(4,249)	952,469	1,702,478	(1,139,525)	562,953
<b>Other Information</b>						
Investments in associates and due from related parties	278,075	898,856	6,220,988	7,397,919	(4,071,782)	3,326,137
Segment assets	34,324,006	2,128,053	21,650,685	58,102,744	(14,610,921)	43,491,823
Segment liabilities	21,588,204	386,520	10,296,094	32,270,818	(3,284,435)	28,986,383
Depreciation	(833,638)	(886)	(81)	(834,605)	(37,342)	(871,947)

(Forward)



	Power and Energy	Property Development	Other Investments	Total	Eliminations	Consolidated
<i>(Amounts in Thousands)</i>						
<b>Cash Flow Information</b>						
Net cash flows from (used in):						
Operating activities	P1,667,751	P7,924	P442,825	P2,118,500	P870,859	P2,989,359
Investing activities	(4,767,164)	(12,993)	480,900	(4,299,257)	(1,010,793)	(5,310,050)
Financing activities	4,159,716	(1,646)	(2,890,530)	1,267,540	147,170	1,414,710

## 2017

	Power and Energy	Property Development	Other Investments	Total	Eliminations	Consolidated
<i>(Amounts in Thousands)</i>						
<b>Earnings Information</b>						
<b>Revenues</b>						
External customer	P6,488,971	P29,930	P-	P6,518,901	P-	P6,518,901
Inter-segment	403,950	-	399,415	803,365	(803,365)	-
Total revenues	6,892,921	29,930	399,415	7,322,266	(803,365)	6,518,901
Interest income	23,909	414	37,358	61,681	(23,818)	37,863
Finance charges	801,865	-	664,775	1,466,640	(266,344)	1,200,296
Provision for (benefit from) income tax	121,275	187	(806)	120,656	57,226	177,882
Net income (loss)	630,378	(923)	375,708	1,005,163	(901,685)	103,478
<b>Other Information</b>						
Investments in associates and due from related parties	518,409	898,885	6,049,103	7,466,397	(4,068,531)	3,397,866
Segment assets	27,442,380	2,115,326	22,991,308	52,549,014	(14,312,301)	38,236,713
Segment liabilities	15,009,098	378,830	11,935,405	27,323,333	(2,916,263)	24,407,070
Depreciation	(852,252)	(743)	(101)	(853,096)	(28,438)	(881,534)
<b>Cash Flow Information</b>						
Net cash flows from (used in):						
Operating activities	2,157,299	23,098	19,938	2,200,335	2,026,736	4,227,071
Investing activities	(4,139,429)	(5,851)	2,840,914	(1,304,366)	(1,625,269)	(2,929,635)
Financing activities	1,626,630	(4,871)	(185,950)	1,435,809	(403,738)	1,032,071

The Group operates and derives principally all of its revenues from domestic operations. Thus, geographical business information is not required.

The following illustrate the reconciliations of reportable segment assets and liabilities to the Group's corresponding amounts:

	2019	2018	2017
<i>(Amounts in Thousands)</i>			
<b>Assets</b>			
Total assets for reportable segments	P46,182,683	P50,704,825	P45,082,617
Investments in shares of stock of subsidiaries and associates and due from related parties	7,985,651	7,397,919	7,466,397
Eliminations	(8,559,120)	(14,610,921)	(14,312,301)
<b>Consolidated assets</b>	<b>P45,609,214</b>	<b>P43,491,823</b>	<b>P38,236,713</b>
<b>Liabilities</b>			
Total liabilities for reportable segments	P4,468,741	P2,698,272	P1,870,957
Long-term debts	23,299,495	22,781,654	18,709,922
Due to related parties	5,657,803	5,274,991	5,211,683
Loans payable	112,292	354,896	975,709
Deferred income tax liabilities - net	711,388	849,195	315,401
Income tax payable	68,454	10,208	19,368
Accrued interest payable	316,268	301,601	220,293
Eliminations	(3,879,924)	(3,284,434)	(2,916,263)
<b>Consolidated liabilities</b>	<b>P30,754,517</b>	<b>P28,986,383</b>	<b>P24,407,070</b>



### Revenue from Contracts with Customers

#### Disaggregated Revenue Information

Set out below is the disaggregation of the Group's revenue from contracts with customers for the year ended December 31:

Type of contract	2019	2018
Revenue from power supply agreements	₱6,783,110,581	₱6,637,809,579
Revenue from contract to sell of residential lots	2,806,925	16,410,658
	<b>₱6,785,917,506</b>	<b>₱6,654,220,237</b>

#### Contract Balances

The Group's receivables as at December 31, 2019 is disclosed in Note 8. The Group's contract assets as at December 31, 2019 and 2018 amounted to 1,182 million and 1,080 million, respectively, representing excess of revenue earned and recognized over the amount billed, billable and/or collected from the customers under the contract (see Note 8).

As of December 31, 2019, the Group's contract liability amounted to ₱26 million, which pertains to down payment in relation to a contract entered into by KAED with a third party (nil in 2018) [see Note 16].

### 7. Cash and Cash Equivalents and Short-term Cash Investments

	2019	2018
Cash on hand	₱382,500	₱355,500
Cash in banks	2,113,520,593	2,672,453,236
Cash equivalents	700,657,546	801,753,105
	<b>₱2,814,560,639</b>	<b>₱3,474,561,841</b>

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

Short-term cash investments amounting to ₱182 million and ₱263 million as at December 31, 2019 and 2018, respectively, consist of money market placements with maturities of more than three months but less than one year with interest rates ranging 3.00% to 4.10% and 3.00% to 6.00% in 2019 and 2018, respectively. Interest income from cash and cash equivalents and short-term cash investments amounted to ₱103 million, ₱55 million and ₱23 million in 2019, 2018 and 2017, respectively.

### 8. Trade and Other Receivables

	2019	2018
Trade:		
Power	₱1,611,601,143	₱1,359,055,132
Real estate	82,317,559	94,922,081
Product distribution and others	31,730,458	31,730,458
Due from related parties (Note 20)	1,399,743,565	1,116,603,735
Contract assets (Note 6)	1,182,196,755	1,080,416,000
Retention receivables	24,455,481	44,455,481
Others	65,150,848	51,910,016
	<b>4,397,195,809</b>	<b>3,779,092,903</b>

(Forward)



	2019	2018
Less noncurrent portion of:		
Installment receivables	₱1,967,393	₱4,019,641
Contract assets (Note 6)	1,131,664,236	1,080,416,000
	1,133,631,629	1,084,435,641
	3,263,564,180	2,694,657,262
Less allowance for impairment losses	83,435,820	83,435,820
	₱3,180,128,360	₱2,611,221,442

#### Power

These receivables are noninterest-bearing and are generally on 30 days term. Trade receivables include SPPC's long-outstanding receivables from NPC amounting to ₱123 million as at December 31, 2019 and 2018. These receivables pertain to the portion of accounts that was disputed by NPC and was decided upon by the Energy Regulation Commission (ERC) on June 3, 2013 in favor of SPPC. On July 23, 2013, NPC elevated the case to the Court of Appeals (CA).

On August 17, 2015, CA denied NPC's motion for reconsideration and decided in favor of SPPC. On September 18, 2015, NPC elevated the case with the Supreme Court (SC). On July 4, 2016, SC rendered a decision holding NPC liable to pay SPPC for the additional 5 MW from 2005 to 2010 which affirmed ERC's requirement for both parties to reconcile settlement amount. On November 23, 2016, SC issued its decision to deny the motion for reconsideration submitted by NPC and to render the case with finality. On October 19, 2018, SPPC filed an Urgent Motion to Resolve the pending issue on the NPC's liability for interest, and SPPC's motion for issuance of writ of execution against NPC for the payment of the principal amounts owed by NPC to SPPC.

On October 19, 2018, SPPC filed an Urgent Motion to Resolve the pending issue on the NPC's liability for interest, and SPPC's motion for issuance of writ of execution against NPC for the payment of the principal amounts owed by NPC to SPPC.

On September 6, 2019, SPPC filed with ERC a Manifestation with Urgent Motion to Resolve, praying that the commission: (1) resolve and grant SPPC's Omnibus Motion for Issuance of Writ of Execution and Notice of Garnishment dated July 18, 2018; and (2) resolve the issue of NPC's liability for interest in favor of SPPC under the Energy Conversion Agreement.

On December 4, 2019, while awaiting the ERC's resolution on SPPC's motion, SPPC's Executive Vice President, Tirso G. Santillan, wrote a letter to the NPC stating that "SPPC agreed to collect the principal amount of ₱68.64 million and US\$5.77 million, and waive the interests amounting to ₱52.98 million and US\$3.43 million."

On December 9, 2019, the NPC, through its president and CEO Pio J. Benavidez, signified its agreement to SPPC's waiver of its claim of interest.

On December 27, 2019, SPPC filed with the ERC an Omnibus Motion to (a) Resolve and (b) Withdraw Claim for Interest. As at March 19, 2020, the motion remains pending with the ERC.

The allowance for impairment loss of ₱34 million as at December 31, 2019 and 2018, is management's best estimate of impairment loss on the long-outstanding receivables from NPC.

#### Real Estate

These pertain to receivables from venturers and customers from the sale of residential and commercial lots and units. Real estate receivables are generally noninterest-bearing and have terms of less than one year, except for installment receivables amounting to ₱57 million and ₱61 million as at



December 31, 2019 and 2018, respectively, which are collectible in monthly installment over a period of two (2) to ten (10) years and bear interest rates ranging from 18% to 21% computed on the outstanding balance of the principal. Title on the lots sold is passed on to the buyer only upon full settlement of the contract price. The noncurrent portion of the installment receivables amounted to ₱2 million and ₱4 million as at December 31, 2019 and 2018, respectively.

Real estate receivables include the Group's share on the sale of the developed residential and commercial lots and golf club shares in the Eagle Ridge Golf and Residential Estates jointly developed with Sta. Lucia Realty and Development, Inc. (SLRDI) (see Notes 10 and 33).

#### Product Distribution and Others

These pertain to receivables from the supply of goods and merchandise to customers. Product distribution and other receivables are noninterest-bearing and generally have a term of less than one year. Outstanding receivables amounting to ₱32 million were fully provided with allowance for impairment losses as at December 31, 2019 and 2018.

#### Retention Receivables

Retention receivables pertain to the outstanding balances from GBPC and Aboitiz Land, Inc. (Aboitiz) for the sale of investment in ATEC (see Note 1) and Lima Land Inc. (LLI), which will be collected upon issuance by BIR of the Certificate Authorizing Registration and accomplishment of certain milestones, respectively.

#### Due from Related Parties and Other Receivables

Other receivables primarily include advances to employees, receivables from contractors, receivables from insurance claims and receivables from venturers. Terms and conditions of the "Due from related parties" are disclosed in Note 20.

### 9. Spare Parts and Supplies

	2019	2018
Coal	₱313,554,548	₱301,874,872
Spare parts	189,863,596	208,831,693
Fuel	111,729,021	138,141,012
Oil, lubricants and chemicals	18,393,050	24,701,162
Operating supplies and consumables	9,399,676	9,192,294
	<b>₱642,939,891</b>	<b>₱682,741,033</b>

### 10. Real Estate Inventories and Investments in Real Estate

#### Real Estate Inventories

	2019	2018
Eagle Ridge Project (General Trias, Cavite)		
- at cost (Note 33)	₱616,887,120	₱616,887,120
Campo Verde Project (Lipa and Malvar, Batangas)		
- at NRV (Note 33)	15,183,519	14,678,275
	<b>₱632,070,639</b>	<b>₱631,565,395</b>



A summary of the movements in real estate inventories is set out below:

	2019	2018
<b>Cost</b>		
Balances at beginning of year	₱650,499,759	₱657,978,380
Repossession of inventories	3,040,377	–
Cost of real estate sold	(3,198,806)	(7,478,621)
Balances at end of year	650,341,330	650,499,759
<b>Allowance for Impairment Loss</b>		
Balances at beginning of year	18,934,364	19,417,692
Recovery of impairment loss due to sale (Note 27)	(663,673)	(483,328)
Balances at end of year	18,270,691	18,934,364
	<b>₱632,070,639</b>	<b>₱631,565,395</b>

Recovery of impairment loss on sold real estate inventories previously provided with allowance for impairment amounting to ₱0.7 million, ₱0.5 million and ₱1 million in 2019, 2018 and 2017, respectively, are recognized also as part of “Other income (charges)” in the consolidated statements of income (see Note 27). Accumulated impairment losses on real estate inventories amounted to ₱18 million and ₱19 million as at December 31, 2019 and 2018, respectively.

#### Investments in Real Estate

	2019	2018
ALC Property (Pasong Tamo, Makati)	₱133,921,044	₱133,963,376
Batangas Project (Lipa and Malvar, Batangas)	52,787,031	52,787,031
Laguna Project (Cabuyao, Laguna)	4,685,936	4,685,936
	<b>₱191,394,011</b>	<b>₱191,436,343</b>

A summary of the movements in investments in real estate is set out below:

	December 31, 2019		
	Land	Building and Improvements	Total
<b>Cost</b>			
Balances at beginning of year	₱182,472,973	₱33,346,307	₱215,819,280
Additions	–	94,468	94,468
Balances at end of year	182,472,973	33,440,775	215,913,748
<b>Accumulated Depreciation</b>			
Balances at beginning of year	–	24,382,937	24,382,937
Depreciation (Note 25)	–	136,800	136,800
Balances at end of year	–	24,519,737	24,519,737
<b>Net Book Value</b>	<b>₱182,472,973</b>	<b>₱8,921,038</b>	<b>₱191,394,011</b>



	December 31, 2018		
	Land	Building and Improvements	Total
<b>Cost</b>			
Balances at beginning of year	P172,097,973	P33,251,839	P205,349,812
Additions	10,375,000	94,468	10,469,468
Balances at end of year	182,472,973	33,346,307	215,819,280
<b>Accumulated Depreciation</b>			
Balances at beginning of year	–	24,247,442	24,247,442
Depreciation (Note 25)	–	135,495	135,495
Balances at end of year	–	24,382,937	24,382,937
<b>Net Book Value</b>	<b>P182,472,973</b>	<b>P8,963,370</b>	<b>P191,436,343</b>

#### Fair Value

The estimated fair value of the investment properties as of December 31, 2019 and 2018 amounted to ₱1,035 million and ₱934 million, respectively. This was determined by an SEC-accredited independent appraiser, using sales comparison approach, which is a comparative approach to value properties that considers the sales of similar assets or related market data and establishes a value estimate.

The significant unobservable inputs to valuation of investment properties ranges from ₱22,484 - ₱77,000 per sqm in 2019 and 2018. Significant increases (decreases) in estimated price per square meter in isolation would result in higher (lower) fair value of the properties.

Management believes that the fair value of the investment properties as at the latest valuation date is substantially the same as their fair value as at December 31, 2019 and 2018. The Company has determined that the highest and best use of these properties is its current use.

## **11. Investments in Associates**

	Percentage of Ownership		2019	2018
	2019	2018		
At equity:				
Acquisition costs:				
Indophil Resources Philippines, Inc. (IRPI)	2.00	2.00	₱1,216,310,412	₱1,213,332,960
Aviana Development Corporation (Aviana)	34.00	34.00	963,311,802	963,311,802
RCPHI	31.24	31.24	80,851,701	80,851,701
T'boli Agro-Industrial Development, Inc.	22.32	22.32	66,193,299	66,193,299
			<b>2,326,667,214</b>	<b>2,323,689,762</b>
Accumulated equity in net earnings:				
Balances at beginning of year			32,888,825	–
Share in net earnings for the year			70,629,805	32,888,825
Dividends declared for the year			(85,000,000)	–
Balances at end of year			18,518,630	32,888,825
Accumulated impairment loss at beginning and end of the year			(147,045,000)	(147,045,000)
			<b>₱2,198,140,844</b>	<b>₱2,209,533,587</b>

#### IRNL and IRPI

The Parent Company purchased 29,149,000 shares of IRNL in the amount of ₱1,316 million in 2010. Together with the ownership interests of APIC and AC through a series of subscription agreements, the Alcantara Group was the largest shareholder of IRNL at 19.99%. By virtue of the Agreement for the Joint Voting of IRNL shares with APIC and AC, the Parent Company has concluded that it has significant influence over IRNL through its representation in the BOD of IRNL. Accordingly, the Parent Company treated its investment in IRNL as part of “Investments in associates” using the equity method in the 2014 consolidated financial statements. The Parent Company had determined that the acquisition cost of IRNL includes goodwill amounting to ₱785 million.



On January 23, 2015, IRNL implemented the Scheme of Arrangement between APIC and IRNL shareholders wherein APIC acquired all of the remaining outstanding shares from existing shareholders of IRNL. Accordingly, IRNL became a subsidiary of APIC starting January 2015.

In July 2015, APIC was no longer part of the Alcantara Group as it was bought by a third party. Accordingly, the Joint Voting Agreement of IRNL shares between the Parent Company, APIC and AC was deemed terminated.

On December 11, 2015, the Parent Company and AC entered into Deed of Assignment of Shares (share swap) agreements with APIC, whereby the Parent Company and AC assigned and transferred to APIC all their interests in IRNL in exchange for ownership interests in IRPI. Accordingly, the Parent Company recognized the investment in IRPI amounting to ₱1,213 million representing the carrying value of the investment at the date of the share swap agreement.

The transfer of the Parent Company's investment in IRNL to investment in IRPI resulted in the Parent Company still exercising significant influence over IRPI due to its representation in the BOD of IRPI and representation in the BOD and Operating Committee of the operating subsidiary of IRPI. Accordingly, ACR treats its investment in IRPI as part of "Investments in associates" using the equity method in the consolidated financial statements.

On September 30, 2019, the Parent company increased its investment in IRPI amounting to ₱3 million to maintain its percentage of share over IRPI of 2% as the latter increased its authorized capital stock.

#### Aviana

On March 21, 2013, Aldevinco and ACIL, Inc. (collectively referred to as "AG") and Ayala Land, Inc. (Ayala Land) entered into a joint venture agreement, where Ayala Land shall own 60% and AG shall own 40% of the outstanding capital stock of Aviana to undertake the development of the Lanang property of the Parent Company in Davao City. On September 17, 2013, Aviana was incorporated as a joint venture corporation. The Parent Company subscribed to the 296 preferred shares and 32 common shares for 32.8% ownership in Aviana. In December 2015, the Parent Company subscribed to additional 332,200 preferred shares and 35,800 common shares of Aviana through the conversion of the Parent Company's advances amounting to ₱36 million. In August 2015, the Parent Company subscribed to additional 261,450 preferred shares and 29,050 common shares of Aviana for ₱22 million. The additional subscription to shares of Aviana in 2015 increased the Parent Company's interest in Aviana to 34%. Dividends receivable from Aviana amounted to ₱2 million as at December 31, 2019 (nil as at December 31, 2018).

The aggregate financial information of IRPI and Aviana as at and for the years ended December 31 are as follows:

	2019	2018
	<i>(Amounts in Thousands)</i>	
Current assets	₱4,953,555	₱2,774,390
Noncurrent assets	20,790,653	21,502,472
Current liabilities	2,433,483	1,207,623
Noncurrent liabilities	285,116	162,968
Revenue and other income	1,225,547	690,024
Net income (loss)	203,631	(1,528,031)
Total comprehensive income (loss)	203,631	(1,528,031)





Aggregate financial information of IRPI and Aviana as at December 31, 2019 and 2018 and reconciliation with the carrying amount of the investment in consolidated financial statements are set out below:

	IRPI		Aviana	
	2019	2018	2019	2018
	<i>(In Thousands)</i>			
Current assets	<b>₱2,447,591</b>	₱1,501,838	<b>₱2,505,964</b>	₱1,272,552
Noncurrent assets	<b>18,836,087</b>	19,610,588	<b>1,954,566</b>	1,891,884
Current liabilities	<b>(241,817)</b>	(230,710)	<b>(2,191,666)</b>	(976,913)
Noncurrent liabilities	<b>(294)</b>	(1,752)	<b>(284,822)</b>	(161,216)
Equity	<b>21,041,567</b>	20,879,964	<b>1,984,042</b>	2,026,307
Equity interest of the Parent Company	<b>2%</b>	2%	<b>34%</b>	34%
Share in net assets of the acquiree	<b>420,831</b>	417,599	<b>674,574</b>	688,944
Goodwill, translation adjustments and others	<b>795,479</b>	795,734	<b>307,257</b>	307,257
Carrying value of investments	<b>₱1,216,310</b>	₱1,213,333	<b>₱981,831</b>	₱996,201

On August 15, 2017, the Parent Company sold its equity interest in Duta amounting to ₱14 million, with allowance for impairment loss amounting to ₱14 million, to Phoenix Petroleum Philippines, Inc. for a total consideration amounting to ₱48 million. The Parent Company recognized gain amounting to ₱34 million, net of transaction costs totalling to ₱8 million (see Note 27).



## 12. Property, Plant and Equipment

As at December 31, 2019:

		Plant Mechanical, Electrical,				Right-of-use Asset - Building		Total
		Main Engine, Plant Structures and Others	Switchyard and Desulfurization Equipment	Land, Buildings and Leasehold Improvements	Machinery and Other Equipment	Construction in Progress		
<b>Cost</b>								
Balances at December 31, 2018	₱19,183,589,380	—	₱4,649,048,437	₱554,953,296	₱915,937,534	₱12,425,398,524	₱—	₱37,728,927,171
Adoption of PFRS 16 (Note 3)							35,274,144	35,274,144
Balances at January 1, 2019	19,183,589,380		4,649,048,437	554,953,296	915,937,534	12,425,398,524	35,274,144	37,764,201,315
Additions	3,148,787		205,025	167,888	13,623,458	3,529,763,639	—	3,546,908,797
Disposals	(19,018,825)		—	—	(12,195,209)	—	—	(31,214,034)
Reclassification	11,349,345,051		2,589,847,457	18,927,446	481,438,528	(15,144,957,822)	—	(705,399,340)
Adjustment to decommissioning liability (Note 19)	160,979,727		—	—	—	—	—	160,979,727
Balances at end of year	30,678,044,120		7,239,100,919	574,048,630	1,398,804,311	810,204,341	35,274,144	40,735,476,465
<b>Accumulated Depreciation</b>								
Balances at beginning of year	6,391,817,513		3,672,826,153	189,100,053	337,542,200	—	—	10,591,285,919
Depreciation for the year:								
Expensed (Note 25)	878,088,209		59,423,215	134,271	122,772,125	—	11,440,263	1,071,858,083
Capitalized	—		—	—	1,139,030	—	—	1,139,030
Disposals	(15,694,274)		—	—	(10,078,353)	—	—	(25,772,627)
Balances at end of year	7,254,211,448		3,732,249,368	189,234,324	451,375,002	—	11,440,263	11,638,510,405
<b>Net Book Value</b>	₱23,423,832,672		₱3,506,851,551	₱384,814,306	₱947,429,309	₱810,204,341	₱23,833,881	₱29,096,966,060

As at December 31, 2018:

	Main Engine, Plant Structures and Others	Plant Mechanical, Electrical, Switchyard and Desulfurization Equipment	Land, Buildings and Leasehold Improvements	Machinery and Other Equipment	Construction in Progress	Total
<b>Cost</b>						
Balances at beginning of year	₱19,173,981,691	₱4,647,085,159	₱552,089,119	₱726,585,794	₱7,425,077,226	₱32,524,818,989
Additions	108,746,622	1,963,278	2,864,177	191,948,043	5,000,321,298	5,305,843,418
Disposals	(72,352,062)	-	-	(2,596,303)	-	(74,948,365)
Adjustment to decommissioning liability (Note 19)	(26,786,871)	-	-	-	-	(26,786,871)
Balances at end of year	19,183,589,380	4,649,048,437	554,953,296	915,937,534	12,425,398,524	37,728,927,171
<b>Accumulated Depreciation</b>						
Balances at beginning of year	5,824,223,254	3,521,523,708	174,247,978	275,117,168	-	9,795,112,108
Depreciation for the year:						
Expensed (Note 25)	630,235,949	151,302,445	14,852,075	71,267,880	-	867,658,349
Capitalized	-	-	-	580,351	-	580,351
Disposals	(62,641,690)	-	-	(9,423,199)	-	(72,064,889)
Balances at end of year	6,391,817,513	3,672,826,153	189,100,053	337,542,200	-	10,591,285,919
<b>Net Book Value</b>	₱12,791,771,867	₱976,222,284	₱365,853,243	₱578,395,334	₱12,425,398,524	₱27,137,641,252



Construction in progress

Included in construction in progress are the capitalized costs related to the 15 MW run-of-river hydro power plant project of Siguil located at Sitio Siguil, Brgy. Tinoto, Maasim, Sarangani. The costs include project site preparation, legal fees and other direct costs attributable to bringing the asset to the condition necessary for it to be capable of operating in the manner intended by management.

In June 2019, the construction of the 15 MW run-of-river hydro power plant project commenced. Total commitments representing the project costs amounted to ₱1,467 million and US\$34 million. The project is expected to be completed in July 2022.

Capitalized borrowing costs

Capitalized borrowing costs amounted to ₱805 million in 2019 and ₱658 million in 2018. The rates used to determine the amount of borrowing costs eligible for capitalization are 6.46% to 6.93% in 2019 and 7.72% to 10.37% in 2018, which are the effective interest rates of the specific borrowing.

In addition, the rate used to determine the amount of borrowing cost eligible for capitalization for Phase 2 relating to general borrowings is 6.93%, which is the weighted average capitalization rate.

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**13. Equity Investments Designated at FVOCI**

As of December 31, this account consists of:

	2019	2018
Quoted		
Balance at beginning of year	₱136,158,830	₱131,064,253
Fair value gain (loss) during the year	(7,661,376)	12,024,309
Disposals during the year	—	(4,384,000)
Transfers of realized gain from OCI	—	(2,545,732)
Balance at end of year	128,497,454	136,158,830
Unquoted		
Balance at beginning and end of year	2,222,168,768	2,222,168,768
	<b>₱2,350,666,222</b>	<b>₱2,358,327,598</b>

The investment in unquoted securities consists of investment in 22 million preferred shares of Aldevinco. The fair value of the investment in unquoted equity securities was based on the adjusted net asset value (NAV) approach. Under the NAV approach, the fair value was derived by determining the fair value of each identifiable assets and liabilities of the investee company.

Significant assumptions included in the NAV calculation are as follows:

- Net realizable value of real estate inventories which is calculated by estimated selling price less cost to sell
- Fair value adjustment for investment property based on appraised value; and
- Fair value adjustment for investment in shares of listed stock based on market closing price of listed associate as at statement of financial position date and net asset value of unlisted securities.
- Discount for lack of marketability



The movements in net unrealized losses on equity investments designated at FVOCI follows:

	2019	2018
Balance at beginning of year	₱33,841,668	₱43,320,245
Fair value loss (gain)	7,661,376	(12,024,309)
Transfer of realized gain from OCI	–	2,545,732
Balance at end of year	₱41,503,044	₱33,841,668

The fair value of investments in shares of listed companies was based on their closing prices as of December 31, 2019 and 2018.

In 2018, the Group recognized dividend income from Aldevinco amounting to ₱264 million (nil in 2019 and 2017; see Note 27).

#### 14. Goodwill

Goodwill acquired through business combinations has been allocated to the power generation CGUs consisting of the operations of SPPC and WMPC. As at December 31, 2019 and 2018, the carrying amount of goodwill of SPPC and WMPC amounted to ₱229 million and ₱578 million, respectively.

##### Key assumptions used in value-in-use calculations

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

*Tariff rates.* Tariff rates, comprising capital recovery fee, fixed and variable operation and maintenance fee, actual fuel cost and other variable energy fees, pertain to the rates used in determining the amount of energy fees to be billed to electric cooperatives and distribution utilities. The tariff rates used in the value-in-use computation are based on management's forecast, and provisionally approved PSAs and agreed Ancillary Services Procurement Agreement (ASPA) with NGCP for WMPC. For SPPC, the tariff rate is based on applied ASPA with NGCP, which is aligned with the tariff rate offered by NGCP to other power companies.

*Contracted and dispatchable capacities.* Contracted capacity reflects the agreed capacity with electric cooperatives and distribution utilities based on PSA and ASPA for WMPC and estimated contracted capacities based on applied ASPA for SPPC. On the other hand, dispatchable capacity reflects management's estimate of actual energy to be delivered during the contract period. Contracted and dispatchable capacities are based on historical performance of the CGUs. The contracted and dispatchable capacities used in the value-in-use computation are shown below.

	2019		2018	
	Contracted Capacity	Dispatchable Capacity	Contracted Capacity	Dispatchable Capacity
SPPC	55%	2%	55%	2%
WMPC	50%-60%	14%	50%-60%	11%

*Discount rates.* Discount rates reflect management's estimate of the risks specific to the CGUs. The discount rates used for the CGUs are based on weighted average cost of capital. This rate was further adjusted to reflect the market assessment of any risk specific to the generating unit for which estimates of cash flows have not been adjusted. The pre-tax discount rates used were 13.7% and 15.71%%, in 2019 and 2018, respectively, for SPPC and 19.6% and 16.66% in 2019 and 2018, for WMPC, respectively.



Sensitivity to Changes in Assumptions

Management believes that the value-in-use is most sensitive to the start of cash flow period for SPPC which is forecasted to start in 2021. A delay in the start of the cash flow would result in impairment.

**15. Prepaid Expenses and Other Current Assets**

	2019	2018
Deposits in interest reserve account (Note 18)	₱968,735,875	₱919,227,228
Creditable withholding taxes	242,339,158	253,747,381
Prepayments	172,220,990	64,761,955
Input VAT	4,899,455	2,834,565
	<b>₱1,388,195,478</b>	<b>₱1,240,571,129</b>

**16. Accounts Payable and Other Current Liabilities**

	2019	2018
Accounts payable	₱2,624,697,461	₱2,775,058,065
Accrued expenses (Note 28)	807,102,864	754,554,604
Interest payable (Note 18)	316,267,945	301,601,399
Dividends payable	144,000,000	185,000,000
Output tax and withholding tax payable	217,256,721	86,787,902
Retention payable	102,775,438	102,402,285
Contract liability (Note 6)	26,432,000	—
Advances from customers	30,508,363	35,239,313
Current portion of lease liability (Note 30)	11,008,135	—
Other current liabilities	200,601,862	417,261,277
	<b>₱4,480,650,789</b>	<b>₱4,657,904,845</b>

Accounts payable are noninterest-bearing and are normally on a 60 to 75 days term. On December 1, 2017, the Parent Company, GBPC and ATEC executed a deed of assignment of advances wherein the Parent Company assigned and transferred to GBPC its right to collect 50% of its advances to ATEC amounting to ₱1,880 million as part of consideration for the sale of the Parent Company's investment in ATEC (see Note 1). This payable to GBPC amounting to ₱1,880 million included as part of accounts payable is noninterest-bearing and payable on demand.

Accrued expenses represent accruals for vacation and sick leaves, overhead fees and utilities. Accrued expenses are normally settled within a year.

Other current liabilities include statutory payables, such as SSS, HDMF and PhilHealth premiums, and other liabilities to the government. Other current liabilities are noninterest-bearing and have an average term of 30 days.

**17. Loans Payable and Short-term Notes Payable**

Loans Payable

*Parent Company*

In 2019 and 2018, the Company availed of unsecured short-term loans from local banks totaling to ₱494 million and ₱1,071 million, respectively. These loans are subject to annual interest rates ranging from 3.50% to 6.00% per annum and are payable on various dates within one year. Upon maturity in 2019, these loans were renewed by the Company. As at December 31, 2019 and 2018, outstanding short-term loans amounted to ₱62 million and ₱115 million, respectively.



*MPC*

MPC availed of unsecured bank loans from Development Bank of the Philippines (DBP), Philippine National Bank and Chinabank amounting to ₱270 million and ₱40 million for the years ended December 31, 2019 and 2018, respectively. The loans bear interest rates ranging from 4.25% to 6.00%. Outstanding balance from the related bank loans amounted to ₱50 million and ₱40 million as at December 31, 2019 and 2018.

*WMPC*

WMPC availed of unsecured bank loans from DBP and UBP totalling to ₱310 million and ₱150 million for the years ended December 31, 2019 and 2018, respectively, with interest rates ranging from 6.85% to 7.50% and 3.875% to 4.400% per annum in 2019 and 2018, respectively. Outstanding balance from the related bank loans amounted ₱200 million as at December 31, 2018 (nil as of December 31, 2019).

*SPPC*

SPPC availed of unsecured bank loans from China Banking Corporation, UBP and DPB totalling to ₱100 million for the year ended December 31, 2018 and was also paid in 2018, with interest rates ranging from 2.64% to 3.875%.

Interest expense from loans payable incurred in 2019 and 2018 related to these short-term loans amounted to ₱30 million and ₱24 million, respectively (see Note 26).

Short-term Notes Payable

*Parent Company*

In 2018, the Parent Company initiated a ₱3 billion Commercial Paper Program with the Multinational Investment Bancorporation acting as the sole issue manager, lead arranger and underwriter of such commercial papers to be listed publicly through the Philippine Dealing & Exchange Corporation. The issuance was divided into two tranches. The first and second tranches shall amount to issuances totaling ₱1,500 million and ₱1,000 million, respectively.

In October 2018, the Company has listed a total of ₱100 million worth of commercial papers, which was part of the first tranche, with a tenor of 360 days, maturing in October 2019. These were issued at discounted amounts with net proceeds amounting to ₱94 million.

In 2019, the Company has listed a total of ₱1,880 million worth of commercial papers with a tenor of 90 to 360 days. These were issued at discounted amounts with net proceeds amounting to ₱1,806 million. Outstanding balance from the commercial papers amounted to ₱974 million and ₱95 million as at December 31, 2019 and 2018, respectively.

*Sarangani*

Sarangani availed of loan from local banks to be used as working capital amounting to ₱645 million and ₱1,600 million for the years ended December 31, 2019 and 2018, respectively, with nominal interest rates ranging from 5.50% to 6.25% and 4.21% to 8.25% in 2019 and 2018, respectively. Outstanding balance from the related bank loans amounted to ₱645 million as at December 31, 2019 (nil as of December 31, 2018).

Interest expense from short-term notes payable incurred in 2019 and 2018 amounted to ₱68 million and ₱25 million, respectively (see Note 26).



## 18. Long-term Debts

This account consists of U.S. dollar and Philippine peso-denominated obligations as follows:

	2019	2018
<b>Parent Company</b>		
Philippine peso-denominated debt:		
Five-year fixed rate corporate note	₱4,554,666,667	₱4,554,666,667
Seven-year fixed rate corporate note	1,469,333,333	1,488,333,333
<b>Sarangani</b>		
Thirteen and a half-year peso-denominated floating rate debt	7,175,780,000	7,965,750,000
Ten and a half-year peso-denominated floating rate debt	10,500,000,000	8,900,000,000
<b>MPC</b>		
Six-year peso-denominated fixed rate debt	—	244,080,000
	23,699,780,000	23,152,830,000
Less unamortized transaction costs	400,285,296	371,176,091
	23,299,494,704	22,781,653,909
Less current portion	5,770,565,644	1,161,893,431
Noncurrent portion	₱17,528,929,060	₱21,619,760,478

Movement in the unamortized transaction costs are as follows:

	2019	2018
Balances at beginning of year	₱371,176,091	₱292,498,053
Additions	102,595,312	153,595,341
Amortization (Note 26)	(73,486,107)	(74,917,303)
Balances at end of year	₱400,285,296	₱371,176,091

### Parent Company

The loans of the Parent Company consist of the following:

- Fixed Rate Corporate Notes Facility* - On November 25, 2015, ACR entered into a fixed rate corporate notes facility with various noteholders with aggregate principal amount of ₱7,500 million divided into two (2) tranches: (a) Tranche A with principal amount of ₱5,600 million, subject to fixed interest rate of 7.24% and payable within five (5) years from the drawdown date and (b) Tranche B with principal amount of ₱1,900 million, subject to fixed interest rate of 7.92% and payable in annual installment of ₱19 million for the first six (6) years with balloon payment of ₱1,786 million on the 7<sup>th</sup> year from the drawdown date. Proceeds of the loan shall be used to prepay ACR's existing long-term debts and finance the investments in power-related assets. In December 2015, ACR had drawn the entire loan facility amounting to ₱7,500 million.

The notes contain embedded derivatives arising from voluntary prepayment option where ACR may opt to prepay the outstanding notes at pre-agreed redemption price starting on the beginning of the 3<sup>rd</sup> anniversary date of the drawdown for Tranche A and beginning of the 5<sup>th</sup> anniversary date of the drawdown for Tranche B. Redemption price shall mean 102% of the face value of the notes outstanding plus accrued interest. ACR may also opt to prepay the notes, in whole or in part, at pre-agreed redemption price using the proceeds of any equity offering or any sale or disposition of its shareholdings in its subsidiaries at each anniversary date of the drawdown up to





the 5<sup>th</sup> anniversary date. The embedded derivatives in the loans were assessed by ACR to be closely related to the host contract, thus were not bifurcated from the host contract. In 2018, the Company has prepaid a part of the loan amounting to ₱1,400 million. The Company incurred loss on prepayment amounting to ₱75 million (see Note 26).

ACR shall maintain certain financial ratios such as debt-to-equity ratio of not more than 2.9 and 2.61, and interest coverage ratio of not less than 1.58 and 1.95 as at December 31, 2019 and 2018, respectively. As at December 31, 2019 and 2018, ACR is in compliance with the debt covenants. Throughout the term of the loan, the interest reserve account is required to have a balance of not less than the aggregate amount of interest falling due within the next interest period which is equivalent to one-year interest period as defined in the loan agreement. As at December 31, 2019 and 2018, the remaining balance of interest reserve account amounted to ₱230 million and ₱239 million, respectively (see Note 15). Interest income earned from interest reserve account amounted to ₱15 million, ₱8 million and ₱6 million in 2019, 2018 and 2017, respectively.

Movement in the unamortized transaction costs of the long-term debts as follows:

	2019	2018
Balances at beginning of year	₱65,329,696	₱102,864,020
Amortization of transaction costs (Note 26)	(29,382,329)	(37,534,324)
Balances at end of year	₱35,947,367	₱65,329,696

Interest expense recognized in 2019 and 2018 amounted to ₱468 million and ₱316 million, respectively (see Note 26). Interest payable amounted to ₱35 million as at December 31, 2019 and 2018 (see Note 16).

As of March 19, 2020, the Group has on-going negotiation regarding refinancing and received two proposals from reputable banks (see Note 31).

#### Sarangani

The loans of Sarangani consist of the following:

##### a. *Phase 1 of SM 200 project*

On December 12, 2012, Sarangani obtained a financing facility consisting of a syndicated term loan in the aggregate principal amount of ₱9,300 million broken down as follows: (1) Series 1 Loan in the principal amount of up to ₱8,600 million for the construction of the Phase 1 105-MW coal-fired power plant and its common or shared areas and facilities; and (2) Series 2 Loan in the principal amount of up to ₱700 million for the construction of the transmission line. Sarangani should pay interest semi-annually at the rate equal to the higher of (a) Philippine Dealing System Treasury Fixing (PDST - F) benchmark bid yield for five-year treasury securities plus 3.5% spread per annum, or (b) 7.5% floor rate, for the first five (5)-year period commencing from the date of initial borrowing; and thereafter, to be adjusted based on the higher of (a) interpolated PDST-F benchmark bid yield for eight and one-half (8-1/2)-year treasury securities plus 2.75% spread per annum, or (b) interest rate applicable on the initial borrowing.

Under the Omnibus Loan and Security Agreement (OLSA), Sarangani shall create and constitute in favor of the collateral trustee real estate mortgage, which includes eight parcels of land registered in the name of KAED and one parcel of land registered in the name of Sarangani. The nine parcels of land have an aggregate area of 297,000 square meters and comprise the plant site of the Project. Further, chattel mortgage shall consist of machinery, office and transportation equipment with a carrying value of ₱18 million and ₱32 million as at December 31, 2019 and 2018, respectively (see Note 12).



Sarangani is subject to certain negative covenants which require prior approval of the creditors for specified corporate acts, such as change of business or scope of Phase 1, change of ownership or management, dividend declarations, issuance of shares, amendment of articles of incorporation and by-laws and quasi-reorganization, incurrence of additional debt and sale or disposal of a substantial portion of their assets, among others. As at December 31, 2019 and 2018, Sarangani is in compliance with the loan covenants.

Sarangani shall also maintain certain financial ratios calculated using Sarangani's stand-alone financial statements such as debt-to-equity ratio of not more than 2.33 and debt service coverage ratio of at least 1.10. As at December 31, 2019 and 2018, Sarangani is in compliance with the financial ratios.

In addition to the collaterals, the shares of stock in Sarangani registered under the names of ATEC and TTC representing 100% of the outstanding capital stock of Sarangani have been pledged in favor of the collateral trustee.

Long-term debts of Sarangani as at December 31, 2019 and 2018 are shown below:

	2019		
	Series I	Series II	Total
Long-term debts	<b>₱6,683,820,000</b>	<b>₱491,960,000</b>	<b>₱7,175,780,000</b>
Less unamortized debt issue costs	<b>86,923,857</b>	<b>7,183,211</b>	<b>94,107,068</b>
	<b>6,596,896,143</b>	<b>484,776,789</b>	<b>7,081,672,932</b>
Less current portion of long-term debt - net of unamortized transaction costs	<b>763,140,670</b>	<b>67,997,229</b>	<b>831,137,899</b>
	<b>₱5,833,755,473</b>	<b>₱416,779,560</b>	<b>₱6,250,535,033</b>

	2018		
	Series I	Series II	Total
Long-term debts	<b>₱7,408,830,000</b>	<b>₱556,920,000</b>	<b>₱7,965,750,000</b>
Less unamortized debt issue costs	<b>87,452,985</b>	<b>29,271,396</b>	<b>116,724,381</b>
	<b>7,321,377,015</b>	<b>527,648,604</b>	<b>7,849,025,619</b>
Less current portion of long-term debt - net of unamortized transaction costs	<b>704,417,553</b>	<b>63,300,745</b>	<b>767,718,298</b>
	<b>₱6,616,959,462</b>	<b>₱464,347,859</b>	<b>₱7,081,307,321</b>

Interest incurred (including capitalized borrowing costs) and amortized debt issue cost after completion of Phase 1 are shown below and as disclosed in Note 26.

	2019	2018
Interest expense	<b>₱681,304,790</b>	<b>₱713,228,664</b>
Amortization of debt issue costs	<b>22,617,313</b>	<b>23,611,008</b>
	<b>₱703,922,103</b>	<b>₱736,839,672</b>

Interest payable as at December 31, 2019 and 2018 amounted to ₱122 million and ₱143 million, respectively (see Note 16).



b. *Phase 2 of SM200 project*

On April 4, 2017, Sarangani obtained a financing facility consisting of a syndicated term loan in the aggregate principal amount of ₱10,500 million broken down as follows: (1) Series 1 Loan in the principal amount of up to ₱8,500 million for the construction of the 105-MW coal-fired power plant; and (2) Series 2 Loan in the principal amount of up to ₱2,000 million for the construction of the transmission lines. Sarangani should pay interest semi-annually at the rate equal to the higher of (a) PDST-R2 benchmark bid yield for five-year treasury securities plus applicable spread equal to 2.75% per annum divided by 0.99 for the first three-and-a-half years, thereafter, to be adjusted to 2.25% per annum divided by 0.99, or (b) 6% floor rate, for the first five (5)-year period commencing from the date of initial borrowing; and thereafter, the higher of (a) interest rate applicable on the initial borrowing, or (b) PDST-R2 benchmark bid yield for five-year treasury securities plus applicable spread on banking day prior to the first day of the 11th interest period. As at December 31, 2019 and 2018, total amount drawn from the facility amounted to ₱10,500 million and ₱8,900 million, respectively.

Under the OLSA, Sarangani shall create and constitute in favor of the collateral trustee real estate mortgage, which includes 14 parcels of land registered the name of Sarangani with an aggregate area of 515,314 square meters and comprise the plant site of the Phase 2 and the common and administration facilities of Sarangani. Further, chattel mortgage shall consist of machinery and transportation equipment with a carrying value of ₱22 million and ₱30 million as at December 31, 2019 and 2018, respectively (see Note 12).

In addition to the collaterals, the shares of stock in Sarangani registered under the names of ATEC and TTC representing 100% of the outstanding capital stock of Sarangani have been pledged in favor of the collateral trustee.

Sarangani is subject to certain negative covenants which require prior approval of the creditors for specified corporate acts, such as change of business or scope of Phase 2, change of ownership or management, dividend declarations, issuance of shares, amendment of articles of incorporation and by-laws and quasi-reorganization, incurrence of additional debt and sale or disposal of a substantial portion of their assets, among others. As at December 31, 2019 and 2018, Sarangani is in compliance with the loan covenants.

Sarangani shall also maintain certain financial ratios calculated using Sarangani's stand-alone financial statements such as debt-to-equity ratio of not more than 2.33 and debt service coverage ratio of at least 1.10. As at December 31, 2019 and 2018, Sarangani was able to meet the required financial ratios.

The OLSA contains an embedded prepayment option where Sarangani may prepay the loan in whole or in part provided certain conditions are met. Sarangani assessed that the prepayment option is not required to be separated from the host contract.



Details of the Group's long-term debts related to Phase 2 of the project are as follows:

As at December 31, 2019:

	Series I	Series II	Total
Long-term debts	<b>₱8,500,000,000</b>	<b>₱2,000,000,000</b>	<b>₱10,500,000,000</b>
Less unamortized debt issue costs	<b>230,949,643</b>	<b>39,281,218</b>	<b>270,230,861</b>
	<b>8,269,050,357</b>	<b>1,960,718,782</b>	<b>10,229,769,139</b>
Less current portion of long-term debt - net of unamortized transaction costs	<b>316,417,939</b>	<b>77,176,056</b>	<b>393,593,995</b>
	<b>₱7,952,632,418</b>	<b>₱1,883,542,726</b>	<b>₱9,836,175,144</b>

As at December 31, 2018:

	Series I	Series II	Total
Long-term debts	<b>₱6,900,000,000</b>	<b>₱2,000,000,000</b>	<b>₱8,900,000,000</b>
Less unamortized debt issue costs	<b>148,002,376</b>	<b>40,583,048</b>	<b>188,585,424</b>
	<b>6,751,997,624</b>	<b>1,959,416,952</b>	<b>8,711,414,576</b>
Less current portion of long-term debt - net of unamortized transaction costs	<b>102,302,879</b>	<b>29,328,844</b>	<b>131,631,723</b>
	<b>₱6,649,694,745</b>	<b>₱1,930,088,108</b>	<b>₱8,579,782,853</b>

Interest incurred (including capitalized borrowing costs) and amortization of debt issue costs that were incurred during the construction of Phase 2 were capitalized as part of "Construction in progress" under "Property, plant and equipment" account (see Note 12).

Interest incurred and amortized debt issue cost during construction of Phase 2 are as follows:

	2019	2018
Interest expense	<b>₱747,643,251</b>	<b>₱419,322,567</b>
Amortization of debt issue costs	<b>21,486,465</b>	<b>10,978,657</b>
	<b>₱769,129,716</b>	<b>₱430,301,224</b>

Accrued interest as at December 31, 2019 and 2018 amounted to ₱157 million and ₱117 million, respectively (see Note 16).

Interest expense recognized in 2019 and 2018 amounted to ₱426 million and ₱657 million, respectively (see Note 26).

The loan agreement requires Sarangani to maintain debt service reserve account. As at December 31, 2019 and 2018, the balance of debt service reserve account amounted to ₱738 million and ₱680 million, respectively (see Note 15). Throughout the term of the loan, the debt service reserve account is required to have a balance of not less than the required debt service reserve account balance as determined by the facility agent plus the sum of the principal and interest payments on the loan falling due on the next principal repayment or interest payment date.



The deferred financing costs pertain to the documentary stamp taxes, mortgage fees, legal and other fees (debt issue costs) incurred by the Company in relation to the Omnibus Loan and Security Agreement (OLSA) dated April 4, 2017. Upon drawdown from the loan facility covered by the OLSA, a portion of the debt issue costs shall be allocated to, and deducted from, the principal drawn amount to determine the carrying value of the loan. The debt issue costs allocated to the undrawn facility is presented as "Deferred financing costs" in the consolidated statement of financial position. The allocation shall be based on the amount of the principal drawn over the total facility. Debt issue costs allocated to drawn facility in 2019 and 2018 amounted to ₱91 million and ₱152 million, respectively, and were presented against long-term debts. As at December 31, 2018, the unutilized deferred financing cost of Sarangani amounted to ₱40 million (nil as at December 31, 2019).

Deferred financing costs as at December 31, 2019 and 2018 are shown below:

	2019	2018
Balance at beginning of year	₱39,796,992	₱157,956,627
Additions	63,334,910	34,274,844
	103,131,902	192,231,471
Less amount allocated to drawn facility	(103,131,902)	(152,434,479)
Balance at end of year	₱—	₱39,796,992

#### MPC

On July 15, 2013, MPC entered into a fixed interest rate long-term OLSA amounting to ₱900 million from a local bank. The loan is payable in 11 semi-annual principal amortizations beginning immediately at the end of the first year from loan drawdown, August 16, 2014, up to August 16, 2019. Interest is computed as the sum of the spread and the applicable benchmark rate, based on outstanding facility amount, and calculated on the basis of the actual number of days elapsed in a year of 360 days. The fixed rate shall be subject to a floor rate of 6.25% per annum, excluding gross receipt tax. The interest is payable every six months reckoned from August 16, 2013, the initial drawdown date. On August 16, 2013, MPC made the first drawdown on the loan amounting to ₱800 million. The outstanding loan balance of ₱244 million as of December 31, 2018 was fully paid in 2019.

MPC is subject to certain negative covenants which require prior approval of the creditors for specified corporate acts, such as dividend declarations, amendment of articles of incorporation and by-laws, incurrence of additional debt and sale or disposal of a substantial portion of their assets, among others. MPC is also required to maintain certain financial and nonfinancial ratios. As at December 31, 2018, MPC was unable to meet the required debt service coverage ratio and certain nonfinancial ratios. Although MPC was not able to meet the required certain financial and nonfinancial ratios as at December 31, 2018, management was able to settle its full outstanding balance on February 14, 2019.

The OLSA contains an embedded prepayment option where MPC may prepay the loan in whole or in part provided certain conditions are met. MPC assessed that the prepayment option is not required to be separated from the host contract.

The OLSA is also subject to a floor cap interest rate wherein interest payment will be at the rate equal to the higher of (a) minimum interest rate of 6.25% per annum or (b) a PDST-F benchmark bid yield for six (6) year treasury securities plus 2.25% spread per annum. Through interpolation, MPC assessed that the floor cap interest rate option is not required to be separated from the debt contract



since it is clearly and closely related to the economic characteristics of the related debt contract. Interest payments are computed using benchmark interest rates in 2019 and 2018.

Under the terms of the OLSA, MPC shall provide collateral security which shall consist of mortgage on the MPC's land and CHC's IDPPs I and II. As at December 31, 2019 and 2018, the carrying amount of MPC's land mortgaged as collateral amounted to ₱62 million.

Interest expense related to long-term debt charged to operations, excluding amortization of transaction costs, amounted to ₱22 million in 2018 (nil in 2019) [see Note 26]. Interest payable on this long-term debt amounted to ₱6 million as at December 31, 2018 (nil as at December 31, 2019). [see Note 16].

Amortization of transaction costs amounted to ₱2 million in 2018 (nil in 2019) [see Note 26].

## 19. Decommissioning Liability

Under their ECC, SPPC, WMPC and Sarangani have an obligation to decommission or dismantle its power plant complex at the end of the useful lives of the power plant assets. In this regard, SPPC, WMPC and Sarangani established a provision to recognize their estimated liability for the dismantlement of their power plant complex.

Movements in decommissioning liability are as follows:

	2019	2018
Balances at beginning of year	₱199,409,217	₱205,731,535
Accretion (Note 26)	14,526,671	13,521,814
Effects of changes in estimated future decommissioning costs and discount rate:		
Recognized in the consolidated statement of income	–	6,942,739
Recognized as adjustment to property, plant and equipment (Note 12)	160,979,727	(26,786,871)
Balances at end of year	₱374,915,615	₱199,409,217

The actual decommissioning cost could vary substantially from the above estimate because of new regulatory requirements, changes in technology, increased cost of labor, materials, and equipment and/or actual time required in completing all decommissioning or dismantling activities.

The provisions recognized represent the best estimate of the expenditures required to settle the present obligation at the current statement of financial position date. Such cost estimates, expressed at current price levels at the date of the estimate, are discounted using the discount rates ranging 5.17% to 5.22% and 7.51% at December 31, 2019 and 2018, respectively. The Group assesses the best estimate of cash flows required to settle the obligation annually every end of the year.

## 20. Related Party Transactions

Parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial and operating decisions. Related parties include (a) enterprises that directly, or indirectly through one or more intermediaries, control or are controlled by, or are under common control with, the Group; (b) associates; and (c) individuals



owning, directly or indirectly, an interest in the voting power of the Group that gives them significant influence over the Group and close members of the family of any such individual. In considering each possible related party relationship, attention is directed to the substance of the relationships, and not merely to the legal form.

All related party transactions shall be disclosed to the Group's Audit Committee ("the Committee") of the BOD and all transactions will be reviewed and approved by the Committee to ensure that a conflict of interest does not exist, a proper assessment of such transaction is made, and all necessary information is properly documented. Material related party transaction shall mean any individual related party transaction, or series of related party transactions over twelve (12) months, and with the same related party, amounting to, or exceeding, individually, or in the aggregate, the materiality threshold. Materiality threshold shall mean ten percent (10%) of the total assets of any of the parties to a transaction, based on that party's latest audited financial statements, and if the transaction is a material related party transaction, and one of the related parties is a parent of the other, the total assets shall pertain to the parent's total consolidated assets.

Transactions with related parties pertain mainly to cash advances and reimbursements of expenses.

Outstanding related party balances are generally settled in cash.

The table below shows the details of the Group's transactions with related parties.

Related Party		Advances	Due from Related Parties (Note 8)	Terms	Conditions
Major stockholders	2019	₱213,682,148	₱1,188,665,441	Payable upon demand, noninterest-bearing	Unsecured, no impairment
	2018	₱62,941,349	₱1,011,520,388		
Subsidiaries of major stockholders	2019	93,797,324	140,471,962	Payable upon demand, noninterest-bearing	Unsecured, no impairment
	2018	4,003,487	47,258,947		
Affiliates	2019	12,781,762	70,606,162	Payable upon demand, noninterest-bearing	Unsecured, no impairment
	2018	45,679,259	57,824,400		
Total	2019	₱320,261,234	₱1,399,743,565		
	2018	₱112,624,095	₱1,116,603,735		

The Parent Company guarantees the obligations of SPPC and WMPC with NPC under the Operational Performance Bonds in accordance with the terms and conditions of the ECAs and to answer for the liabilities that SPPC and WMPC may incur in connection with the said Performance Bonds.

Compensation of key management personnel amounted to ₱89 million, ₱91 million and ₱79 million in 2019, 2018 and 2017, respectively, representing short-term employee benefits.



## 21. Equity

### Capital Stock

	2019		2018	
	No. of shares	Amount	No. of shares	Amount
<b>Authorized</b>				
Common - ₱1 par value	11,945,000,000	₱11,945,000,000	11,945,000,000	₱11,945,000,000
Preferred - ₱0.01 par value	5,500,000,000	55,000,000	5,500,000,000	55,000,000
		<b>₱12,000,000,000</b>		<b>₱12,000,000,000</b>
<b>Common</b>				
Issued and outstanding	6,291,500,000	₱6,291,500,000	6,291,500,000	₱6,291,500,000
<b>Preferred</b>				
Subscribed	5,500,000,000	55,000,000	5,500,000,000	55,000,000
Subscriptions receivable		(10,816,667)		(15,216,667)
		<b>₱6,335,683,333</b>		<b>₱6,331,283,333</b>

On May 24, 2011, the Philippine SEC approved the amendment of the Articles of Incorporation of ACR creating a class of preferred shares, by reclassifying 55,000,000 unissued common shares with a par value of ₱1.00 per share into 5,500,000,000 redeemable preferred voting shares with a par value of ₱0.01 per share.

The redeemable preferred shares have the following features:

- Redeemable preferred shares may only be issued or transferred to Filipino citizens or corporations or associations at least 60% of capital of such corporations or associations is owned by Filipino citizens.
- Holders of redeemable preferred shares are entitled to receive, out of the unrestricted retained earnings of ACR, cumulative dividends at the rate of 8% per annum of the par value of the preferred shares, before any dividends shall be paid to holders of the common shares. There were no dividend in arrears for 2019 and 2018.
- ACR may, by resolution of the BOD, redeem the preferred shares at par value. ACR will redeem the preferred shares at par value (i) when the foreign equity limits to which ACR is subject to shall have been removed; and (ii) ACR is not engaged in any other activity likewise reserved exclusively to Filipino citizens, or corporations or associations at least sixty percent (60%) of whose capital is owned by Filipino citizens that would otherwise require ACR to maintain the ownership of the preferred shares by such Filipino citizens. The preferred shares when redeemed will not be retired, and may be reissued upon resolution of the BOD.
- In the event of dissolution or liquidation, holders of redeemable preferred shares are entitled to be paid in full, or pro-rata insofar as the assets and properties of ACR will permit, the par value of each preferred share before any distribution shall be made to the holders of common shares, and are not entitled to any other distribution.

All common and preferred shares have full voting rights.

On February 4, 2013, AC subscribed to 5,500,000,000 preferred shares with par value of ₱0.01 per share, from the unissued authorized preferred shares of the Parent Company. On the same date, AC paid ₱14 million representing 25% of the subscription price of ₱55 million. As at December 31, 2019 and 2018, subscriptions receivable from AC amounted to ₱10 million and ₱15 million, net of the 8% dividends declared for preferred shares in 2019 and 2018, respectively.





The following summarizes the information on the Parent Company's registration of securities under the Securities Regulation Code:

Date of SEC Approval	Activity	Authorized Common Shares	No. of Shares Issued	Issue/Offer Price
1993	Initial Public Offering	12,000,000,000	6,291,500,000	₱1
2011	Conversion of unissued common shares to redeemable preferred shares	(55,000,000)	—	—
		11,945,000,000	6,291,500,000	

#### Retained Earnings

The BOD approved the appropriation of its retained earnings for its equity contributions to the following projects:

As of December 31, 2019:

Project Name	Nature/Project Description	Amount (in millions)	Timeline (Year)
ZAM100	Construction of 105 MW coal-fired power plant in San Ramon, Zamboanga City	₱600	2022
Siguil	Hydro-electric power in Maasim, Sarangani	370	2022
Bago	Hydro-electric power in Negros Occidental	130	2024
		₱1,100	

As of December 31, 2018:

Project Name	Nature/Project Description	Amount (in millions)	Timeline (Year)
SM200 1 & 2*	Phase 1 of the 200 MW coal-fired power plant in Maasim, Sarangani	₱800	2015
ZAM100	Construction of 105 MW coal-fired power plant in San Ramon, Zamboanga City	300	2016
Siguil	Hydro-electric power in Maasim, Sarangani	70	2017
Bago	Hydro-electric power in Negros Occidental	30	2019
SMI400	400 MW coal-fired power facility for future power requirements of the Tampakan copper-gold mine in South Cotabato	100	2019
		₱1,300	

\*Completion of Phase 2 has been extended to 2019.

The Company declared the following cash dividends on its common shares:

Year	Date of Declaration	Amount	Per Share	Date of Record	Date of Payment
2019	May 30, 2019	₱125,830,000	₱0.020	June 30, 2019	July 24, 2019
2018	May 24, 2018	226,494,000	0.036	June 30, 2018	July 25, 2018
2017	May 25, 2017	100,664,000	0.016	June 30, 2017	July 25, 2017

Dividends on preferred shares amounting to ₱4.4 million for years 2019, 2018 and 2017 were applied against the Company's subscriptions receivable from AC (see Note 35).

#### Equity Reserves

##### *Acquisition of non-controlling interest*

On July 2, 2013, the Parent Company entered into a Share Purchase Agreement to acquire 40% interest in voting shares of CHC, increasing its ownership to 100%. Cash consideration paid on August 1, 2013 amounted to ₱528 million (US\$12.16 million). The carrying value of the net assets of CHC was ₱2,456 million (US\$38.97 million).



Following is the schedule of additional interest acquired in CHC in 2013:

Carrying value of the additional interest in CHC	₱982,232,166
Cash consideration paid to non-controlling interest	(527,910,397)
Excess of book value of non-controlling interest acquired over acquisition cost	₱454,321,769

The excess of book value of non-controlling interest acquired over acquisition cost was recognized in equity as follows:

Absorbed cumulative translation adjustment from acquired non-controlling interest	₱308,841,072
Included as part of other equity reserves	145,480,697
	₱454,321,769

*Disposal of interest in a subsidiary without loss of control*

On November 27, 2017, the Parent Company sold its 50% ownership interest less 1 share of the voting and total outstanding capital stock ownership interest in ATEC equivalent to 14,952,678 common shares to GBPC for a total consideration amounting to ₱2,378 million, inclusive of retention receivable to be received upon issuance by BIR of the Certificate Authorizing Registration (see Note 8). The excess of the total consideration over the carrying value of the sold interest in ATEC amounting to ₱709 million (net of transaction cost) was recognized as part of equity reserves.

Basic/diluted earnings (loss) per share

Earnings (loss) per share attributable to equity holders of the Parent Company is computed as follows:

	2019	2018	2017
Net income (loss) attributable to equity holders of the parent	₱143,110,733	₱89,100,832	(₱25,433,147)
Average number of shares outstanding for the year	6,291,500,000	6,291,500,000	6,291,500,000
Basic/diluted earnings (loss) per share	₱0.023	₱0.014	(₱0.004)

\*net of ₱4.4 million dividends on preferred shares

## 22. Cost of Services

The Group's cost of services are as follows:

	2019	2018	2017
Coal, fuel, oil and lubricants	₱2,490,010,567	₱3,108,956,357	₱3,134,962,268
Depreciation and amortization (Notes 12 and 25)	1,005,873,416	816,573,811	819,444,633
Repairs and maintenance	287,935,819	348,936,579	256,573,959
Personnel costs (Notes 24 and 28)	166,659,153	148,584,120	140,994,972
Insurance expense	104,923,244	107,040,051	126,500,269
Utilities	46,929,800	12,113,058	4,428,770
Contracted services	35,734,560	4,535,345	3,865,806
Taxes and licenses	1,178,104	1,192,365	1,182,518
Property administration	285,621	2,083,611	1,921,042
Others	97,434,906	122,761,292	83,777,540
	₱4,236,965,190	₱4,672,776,589	₱4,573,651,777



## 23. General and Administrative Expenses

The Group's general and administrative expenses are as follows:

	2019	2018	2017
Personnel costs (Notes 24 and 28)	₱213,161,127	₱187,408,697	₱169,603,937
Outside services	71,456,162	57,079,097	61,295,823
Depreciation and amortization (Notes 12 and 25)	70,960,864	55,373,203	62,089,299
Taxes and licenses	59,629,323	56,082,162	61,368,057
Marketing expense	42,596,992	33,576,608	11,152,070
Transportation and travel	25,567,750	23,381,873	19,512,535
Utilities	15,722,075	14,915,093	19,460,181
Directors and executive fees and bonuses	5,331,445	5,258,889	3,915,000
Customer relations	4,778,474	7,747,011	4,552,018
Supplies	4,114,859	1,662,900	2,118,594
Telephone, telegraph and postage	4,108,967	5,589,509	6,326,510
Representation	1,576,682	3,875,875	4,291,787
Insurance	956,697	1,074,151	1,375,056
Commissions (Note 33)	185,000	221,052	648,539
Others	77,744,982	33,888,133	134,401,838
	₱597,891,399	₱487,134,253	₱562,111,244

Others include costs of freight and brokerage fees, professional license upgrading, reproduction, supplies and other administrative expenses of the Group which are not individually material.

## 24. Personnel Costs

The Group's personnel costs are as follows:

	2019	2018	2017
Cost of services (Note 22)	₱166,659,153	₱148,584,120	₱140,994,972
General and administrative expenses (Note 23)	213,161,127	187,408,697	169,603,937
	₱379,820,280	₱335,992,817	₱310,598,909

	2019	2018	2017
Salaries, wages and bonuses	₱312,993,194	₱269,899,195	₱261,690,360
Retirement benefits costs (Note 28)	15,524,596	14,735,101	13,000,707
Other employee benefits	51,302,490	51,358,521	35,907,842
	₱379,820,280	₱335,992,817	₱310,598,909

## 25. Depreciation and Amortization

	2019	2018	2017
Cost of services (Note 22)	₱1,005,873,416	₱816,573,811	₱819,444,633
General and administrative expenses (Note 23)	70,960,864	55,373,203	62,089,299
	₱1,076,834,280	₱871,947,014	₱881,533,932



	2019	2018	2017
Property, plant and equipment (Note 12)	₱1,071,858,083	₱867,658,349	₱873,795,125
Amortization of software costs	4,839,396	4,153,170	7,545,328
Investments in real estate (Note 10)	136,800	135,495	193,479
	<b>₱1,076,834,279</b>	<b>₱871,947,014</b>	<b>₱881,533,932</b>

## 26. Finance Charges

	2019	2018	2017
Interest on long-term debts, loans payable and short-term notes payable (Notes 17 and 18)	₱991,946,957	₱1,022,278,057	₱1,130,424,317
Amortization of transaction costs and debt issue costs (Note 18)	73,486,107	74,917,303	59,492,437
Interest on decommissioning liability (Note 19)	14,526,671	13,521,814	10,378,761
Loss on prepayment of long-term debts (Note 18)	—	75,175,498	—
Others	1,053,997	—	—
	<b>₱1,081,013,732</b>	<b>₱1,185,892,672</b>	<b>₱1,200,295,515</b>

## 27. Other Income (Charges)

	2019	2018	2017
Foreign exchange gain (loss) - net	(₱42,545,740)	₱20,400,818	(₱5,529,475)
Dispatch discharge	8,690,038	—	—
Reversal of accrual for compensated absences	4,665,169	—	110,001
Gain on sale of property, plant and equipment and investment in real estate	1,168,423	866,268	1,829,595
Recovery of impairment losses on real estate inventories due to sale (Note 10)	663,673	483,328	1,172,249
Dividend income (Note 13)	—	264,000,000	—
Gain on sale of investment (Note 11)	—	—	34,339,109
Recovery of impairment loss on investment due to sale (Note 11)	—	—	13,725,000
Quitclaim settlement	—	—	12,908,826
Input VAT income	—	—	994,461
Others	2,697,575	8,089,122	10,603,182
	<b>(₱24,660,862)</b>	<b>₱293,839,536</b>	<b>₱70,152,948</b>

In 2017, WMPC received final settlement from Power Sector Assets and Liabilities Management Corporation (PSALM) totaling to ₱13 million in relation to its ECA with NPC which ended on December 15, 2015.

Others pertain significantly to sales of sludge and reversal of provisions.



## 28. Employee Benefits

### a. Retirement Benefits

The Parent Company, ALC, MPC and Sarangani have unfunded, noncontributory defined benefit retirement plans while SPPC, WMPC, and APMC have funded, noncontributory defined benefit retirement plans covering all their qualified employees. Retirement benefits are dependent on the years of service and the respective employee's compensation. The Group's latest actuarial valuation report is as at December 31, 2019.

Under the existing regulatory framework, Republic Act. 7641, otherwise known as the *Retirement Pay Law*, requires a provision for retirement pay to qualified private sector employees in the absence of any retirement plan in the entity, provided, however, that the employee's retirement benefits under any collective bargaining and other agreements shall not be less than those provided under the law. The law does not require minimum funding of the plan.

#### SPPC, WMPC and APMC

The tables in the next page summarize the movements in net retirement assets of SPPC, WMPC and APMC.

As at December 31, 2019:

	Present Value of Defined Benefit Obligation	Fair Value of Plan Assets	Net Retirement Assets
At January 1, 2019	₱71,774,395	₱89,336,864	(₱17,562,469)
Retirement benefits cost recognized in profit or loss:			
Current service cost	5,284,205	—	5,284,205
Net interest income	5,042,998	6,300,893	(1,257,895)
	10,327,203	6,300,893	4,026,310
Remeasurements losses (gains) recognized in OCI:			
Return on plan assets (excluding amount included in net interest)	—	2,142,213	(2,142,213)
Arising from changes in financial assumptions	6,123,348	—	6,123,348
Due to experience adjustments	8,473,149	—	8,473,149
	14,596,497	2,142,213	12,454,284
Contributions paid	—	4,774,688	(4,774,688)
At December 31, 2019	₱96,698,095	₱102,554,658	(₱5,856,563)

As at December 31, 2018:

	Present Value of Defined Benefit Obligation	Fair Value of Plan Assets	Net Retirement Assets
At January 1, 2018	₱77,280,028	₱100,798,951	(₱23,518,923)
Retirement benefits cost recognized in profit or loss:			
Current service cost	7,188,957	—	7,188,957
Net interest income	3,732,805	5,294,553	(1,561,748)
	10,921,762	5,294,553	5,627,209
Remeasurements losses (gains) recognized in OCI:			
Return on plan assets (excluding amount included in net interest)	—	(8,809,553)	8,809,553
Arising from changes in financial assumptions	(1,368,345)	—	(1,368,345)
Due to experience adjustments	(7,111,963)	—	(7,111,963)
	(8,480,308)	(8,809,553)	329,245
Benefits paid	(7,947,087)	(7,947,087)	—
At December 31, 2018	₱71,774,395	₱89,336,864	(₱17,562,469)



The Group Plan is being maintained by Banco de Oro Unibank, Inc. - Trust and Investments Group (BDO - TIG), a trustee bank.

The carrying amounts and fair values of the plan assets of the Group Plan follows:

	2019	2018
Cash and cash equivalents	0.00%	5.46%
Investments in unit investment trust fund (UITF)	8.64%	58.66%
Investments in shares of stock	68.50%	2.61%
Investments in debt and other securities	19.76%	16.88%
Investments in government securities	2.35%	14.93%
Others	0.75%	1.46%
	100.00%	100.00%

The plan assets of the Group Plan consist of the following:

- Cash and cash equivalents include regular deposit and time deposits which bear interest ranging from 1.75% to 2.00%;
- Investments in UITF are ready-made investments that allow the pooling of funds that are managed by BDO - TIG;
- Investments in shares of stock consist of quoted equity securities;
- Investments in debt and other securities, consisting of both short-term and long-term corporate notes and bonds, bear interest ranging from 4.38% to 8.46% and have maturities from 2014 to 2024;
- Investments in government securities, consisting of fixed rate treasury notes and retail treasury bonds bear interest ranging from 2.84% to 8.13% and have maturities from 2014 to 2037; and
- Other financial assets held by the Group Plan consist primarily of interest and dividends receivable.

#### ACR, ALC, MPC and Sarangani

The following tables summarize the movements in retirement benefits liabilities of the Parent Company, ALC, MPC and Sarangani:

	2019	2018
Balances at beginning of year	₱35,063,842	₱28,258,142
Retirement benefits cost charged in profit or loss:		
Current service cost	8,789,156	7,469,761
Interest cost	2,567,065	1,637,731
	11,356,221	9,107,492
Remeasurements losses (gains) recognized in OCI arising from:		
Changes in financial assumptions	17,926,055	(4,198,169)
Experience adjustments	(2,824,676)	2,230,698
Changes in demographic assumptions	668,195	-
	15,769,574	(1,967,471)
Benefits paid	-	(334,321)
Balances at end of year	₱62,189,637	₱35,063,842



The net retirement assets and liabilities in the consolidated statements of financial position are as follows:

	Net retirement assets		Retirement benefits liabilities	
	2019	2018	2019	2018
Funded	<b>₱18,271,750</b>	₱20,450,756	<b>₱12,415,187</b>	₱2,888,287
Unfunded	—	—	<b>62,189,637</b>	35,063,842
<b>Total</b>	<b>₱18,271,750</b>	<b>₱20,450,756</b>	<b>₱74,604,824</b>	<b>₱37,952,129</b>

#### Actuarial Assumptions

The principal assumptions used in determining retirement benefits obligation as at December 31 are as follows:

*SPPC, WMPC and APMC:*

	2019	2018
Discount rates	<b>4.24%-4.96%</b>	5.71%-6.97%
Future salary increases	<b>5%</b>	4-5%

*ACR, ALC, MPC, APSC and Sarangani:*

	2019	2018
Discount rates	<b>4.96%-5.20%</b>	5.71%-7.36%
Future salary increases	<b>5%-10%</b>	4%-10%

The Group has no specific matching strategies between the retirement plan assets and the defined benefit obligation under the retirement plans.

The sensitivity analysis shown below has been determined based on reasonably possible changes of each significant assumption on the defined benefit obligations, assuming all other assumptions were held constant.

As at December 31, 2019:

	Increase (Decrease)	Amount	Increase (Decrease)	Amount
Discount rates	+0.5%	(₱1,575,442)	+0.5%	(₱5,119,611)
	-0.5%	1,715,466	-0.5%	5,899,116
Salary increase rates	+1.0%	3,361,300	+1.0%	10,479,170
	-1.0%	(2,806,287)	-1.0%	(8,468,030)

As at December 31, 2018:

	Increase (Decrease)	Amount	Increase (Decrease)	Amount
Discount rates	+0.5%	(₱967,894)	+0.5%	(₱1,445,304)
	-0.5%	1,048,068	-0.5%	1,619,533
Salary increase rates	+1.0%	2,106,079	+1.0%	3,390,359
	-1.0%	(1,827,787)	-1.0%	(2,747,012)









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

	2019	2018
Less than 1 year	₱87,294,786	₱67,432,245
More than 1 year to 5 years	15,141,151	16,774,464
More than 5 years to 10 years	67,947,267	45,095,128
More than 10 years to 15 years	59,796,725	58,970,176
More than 15 years to 20 years	133,250,496	106,980,922
More than 20 years	1,236,492,790	1,231,065,772

b. Compensated Absences

All regular employees of CHC and its subsidiaries and Sarangani who have completed 12 months of continuous service are entitled to leave credits. Leave credits granted to each employee vary based on the employee's tenure and can be accumulated up to 60 days. Cost for vested leave credits are dependent on the mortality rate, disability rate, employee turnover rate, salary increase rate, discount rate, utilization rate and respective employee's compensation and leave credits.

Movements in the accrued leave credits (recognized under "Accrued expenses" account in "Accounts payable and other current liabilities") are as follows:

	2019	2018
Balances at beginning of year	₱13,537,097	₱11,768,307
Current service cost	13,629,566	3,450,334
Benefits paid	(7,405,858)	(1,681,544)
Balances at end of year	₱19,760,805	₱13,537,097

## 29. Income Taxes

a. Provision for current income tax consists of:

	2019	2018	2017
RCIT	₱210,563,944	₱86,299,878	₱143,228,838
MCIT	1,384,863	286,334	322,175
Total	₱211,948,807	₱86,586,212	₱143,551,013

b. Following is the reconciliation between the statutory tax rate on income before income tax and the effective tax rates:

	2019	2018	2017
Statutory income tax rate	30.0%	30.0%	30.0%
Increase (decrease) in income tax rate resulting from:			
Unrecognized deferred income tax assets	18.0%	23.0%	53.0%
Translation adjustments, effect of change in tax rate, income of certain subsidiaries enjoying tax holidays and others - net	(41.6%)	(33.0%)	(19.8%)
Effective income tax rate	6.4%	20.0%	63.2%



c. Deferred income tax assets (liabilities) pertain to the income tax effects of the following:

	2019		2018	
	Net Deferred Income Tax Assets	Net Deferred Income Tax Liabilities	Net Deferred Income Tax Assets	Net Deferred Income Tax Liabilities
<b>Deferred Income Tax Assets</b>				
NOLCO	P—	P30,800,025	P—	P3,484,391
Decommissioning liability	28,762,188	27,852,418	—	28,983,463
Unrealized intercompany transactions	30,994,356	—	28,762,188	60,363
Lease liability	—	7,499,844	—	—
Allowance for impairment loss	1,518,887	4,666,342	1,518,887	916,517
Impairment losses on projects costs	4,274,186	—	4,274,186	—
Actuarial loss recognized in equity	4,129,064	—	2,418,280	429,375
Accrued vacation and sick leaves	3,777,339	1,491,654	3,197,201	1,147,565
Net retirement plan assets	2,996,277	570,532	—	3,204,189
Unamortized past service cost	2,219,448	—	3,222,574	—
Unrealized foreign exchange losses	88,688	81,743	—	84,218
	78,760,433	72,962,558	43,393,316	38,310,081
<b>Deferred Income Tax Liabilities</b>				
Capitalized interest	—	(434,812,257)	—	(483,567,818)
Fair value adjustment on real estate inventories, net of impairment	—	(147,368,957)	—	(147,368,957)
Difference between financial and tax depreciation	—	(81,122,190)	—	(93,894,856)
Contract assets	—	(59,109,837)	—	(54,020,800)
Effect of change in functional currency	(1,880,849)	(37,624,860)	—	(44,340,918)
Difference between tax and financial amortization of transaction costs	—	(10,784,210)	—	(19,759,886)
Right-of-use asset	—	(7,150,164)	—	—
Actuarial gains recognized in equity	(472,178)	(4,200,647)	—	(5,390,704)
Capitalized decommissioning asset	—	(2,000,584)	—	—
Unrealized foreign exchange gains	—	(177,030)	—	(6,021,843)
Equity in undistributed net earnings of a foreign subsidiary	(600,167)	—	—	(28,188,462)
Retirement plan assets	—	—	—	(4,951,246)
	(2,953,194)	(784,350,736)	—	(887,505,490)
	P75,807,239	(P711,388,178)	P43,393,316	(P849,195,409)

d. The following are the Group's deductible temporary differences and carryforward benefits of NOLCO and excess MCIT for which no deferred income tax assets are recognized in the consolidated financial statements because management believes that it is not probable that taxable income will be available against which the deferred income tax assets can be utilized:

	2019	2018
NOLCO	P1,953,694,739	P1,835,403,219
Impairment losses on property, plant and equipment	149,244,117	149,244,117
Allowance for doubtful accounts	31,730,458	44,893,549
Unrealized foreign exchange losses	11,263,399	9,331,949
Excess MCIT	5,060,024	3,915,731
Others	10,847,494	8,698,960



Movements of NOLCO and excess MCIT follow:

	2019		2018	
	NOLCO	Excess MCIT	NOLCO	Excess MCIT
Balances at beginning of year	₱1,847,017,856	₱3,915,731	₱2,099,196,484	₱3,643,790
Additions	711,264,655	4,371,318	693,160,180	286,334
Utilization and expiration	(501,921,022)	(3,227,025)	(945,338,808)	(14,393)
Balances at end of year	₱2,056,361,489	₱5,060,024	₱1,847,017,856	₱3,915,731

As at December 31, 2019, NOLCO and excess MCIT that can be claimed as deduction from taxable income and RCIT due, respectively, are as follows:

Years Incurred	Expiry Dates	NOLCO	Excess MCIT
2017	2020	₱712,015,455	₱402,372
2018	2021	633,081,379	286,334
2019	2022	711,264,655	4,371,318
		₱2,056,361,489	₱5,060,024

### 30. Lease Commitments

#### Long-term Lease

On December 1, 2011, the Group entered into a 5 year lease agreement with Alphaland Development Inc. commencing on February 1, 2012 up to January 31, 2017 for office space. Upon expiration, the lease was renewed for another five years.

Set out below, are the amounts recognized in the consolidated statements of income:

	2019	2018	2017
Depreciation expense of right-of-use assets	₱11,440,263	₱—	₱—
Interest expense on lease liability	2,418,712	—	—
Included under "General and administrative expenses" (Note 23):			
Rent expense - short-term leases	1,877,508	—	—
Rent expense - PAS 17	—	3,382,420	5,169,041
	₱15,736,483	₱3,382,420	₱5,169,041

Total cash outflow for leases amounted to ₱15 million in 2019.

Recoverable deposits related to the lease agreement amounted to ₱4.16 million and ₱3.95 million as of December 31, 2019 and 2018, respectively.



Set out below, is the rollforward analysis of lease liabilities during the year ended December 31, 2019:

As at January 1, 2019, as previously reported	P=
Effect of adoption of PFRS 16 (Note 2)	35,274,144
At January 1, 2019, as restated	35,274,144
Non-cash changes:	
Interest expense	2,418,712
Payments of:	
Principal portion	(10,274,664)
Interest	(2,418,712)
	24,999,480
Less current portion	11,008,135
Noncurrent portion	P13,991,345

Shown below is the maturity analysis of the undiscounted lease payments for the year ended December 31, 2019:

Within one year	P12,762,956
More than 1 years to 2 years	13,581,912
More than 2 years to 3 years	1,138,030

#### Operating Lease Receipts

The Group entered into various operating lease contracts with various third-party lessees. The lease term is one year renewable annually. Total rental income from these lease agreements amounted to P10 million, P12 million and P12 million in 2019, 2018 and 2017, respectively.

### **31. Financial Risk Management Objectives and Policies**

The Group's principal financial instruments are composed of cash and cash equivalents, short-term cash investments, equity investments designated at FVOCI, loans payable and long-term debts. The main purpose of these financial instruments is to raise finances for the Group's operations. The Group has various other financial assets and liabilities such as trade and other receivables and accounts payable and other current liabilities which arise directly from its operations. The main risks arising from the Group's financial instruments are credit risk, liquidity risk, and market risk (interest rate risk, equity price risk and foreign currency risk).

Management reviews and the BOD approves policies for managing each of these risks which are summarized below.

#### Credit Risk

Credit risk is the risk that a counterparty will not meet its obligation under a financial instrument or a customer contract, leading to a financial loss. The Group trades only with recognized and creditworthy third parties. It is the Group's policy that all customers who wish to trade on credit terms are subject to credit verification procedures. In addition, receivable balances are monitored on an ongoing basis with the result that the Group's exposure to bad debts is not significant.

In the Group's real estate business, transfer of the property is executed only upon full payment of the purchase price. There is also a provision in the sales contract which allows forfeiture of the installment/deposits made by the customer in favor of the Group in case of default. These measures minimize the credit risk exposure or any margin loss from possible default in the payment of installments.



In the Group's power generation business, it is the policy of the Group to ensure that all terms specified in the PSAs with its customers, including the credit terms of the billings, are complied with.

The table below shows the gross maximum exposure to credit risk of the Group as at December 31, before considering the effects of collaterals, credit enhancements and other credit risk mitigation techniques.

	2019	2018
Cash and cash equivalents*	₱2,814,178,139	₱3,474,206,341
Short-term cash investments	181,632,086	262,952,916
Trade and other receivables		
Trade receivables		
Power	1,578,133,517	1,325,587,506
Real estate**	69,154,468	81,758,990
Due from related parties	1,399,743,565	1,116,603,735
Contract assets	1,182,196,755	1,080,416,000
Retention receivables	24,455,481	44,455,481
Other receivables***	38,320,708	43,601,492
Deposits in interest reserve account	968,735,875	919,227,228
	<b>₱8,256,550,594</b>	<b>₱8,348,809,689</b>

\*Excludes cash on hand amounting to ₱0.4 million as at December 31, 2019 and 2018.

\*\*Includes noncurrent portion of installment receivables amounting to ₱2.0 million and ₱4.0 million as at December 31, 2019 and 2018, respectively.

\*\*\*Excludes advances for business expenses and advances to employees totaling to ₱21.8 million and ₱41.8 million as at December 31, 2019 and 2018, respectively.

#### *Trade receivables and contract assets*

The Group's trade receivables and contract assets are monitored on a regular basis. An impairment analysis is performed at each reporting date using a provision matrix to measure expected credit losses. The provision rates are based on days past due of the customer with loss pattern. The calculation reflects the probability-weighted outcome and reasonable and supportable information that is available at the reporting date about past events, current conditions and forecasts of future economic conditions. For trade receivables from real estate sales, expected credit loss is computed using vintage analysis.

The provision matrix is initially based on the Group's historical observed default rates. The Group will calibrate the matrix to adjust the historical credit loss experience with forward-looking information.

Generally, trade and other receivables from customers and contract assets are written-off when deemed unrecoverable and are not subject to enforcement activity. The maximum credit exposure to credit risk at the reporting date is the carrying value of each class of financial assets.

#### *Due from related parties*

The Group considers its due from related parties as high grade due to assured collectability through information from the related parties' sources of funding.

#### *Other financial assets*

Credit risk from balances with banks and financial institutions is managed in accordance with the Group's policy. Investments of surplus funds are made only with approved counterparties and within credit limits assigned to each counterparty. Counterparty limits are reviewed and approved by the BOD, and are updated when necessary.



The Group does not hold any collateral from its customers; thus, the carrying amounts of cash and cash equivalents and refundable deposits approximate the Group's maximum exposure to credit risk. No other financial assets carry a significant exposure to credit risk.

Cash and cash equivalents, short-term cash investments and deposits in interest rate reserve accounts are placed in various banks. Material amounts are held by banks which belong to top five (5) banks in the country. The rest are held by local banks that have good reputation and low probability of insolvency. These are considered to be low credit risk investments.

The following tables below summarize the credit quality of the Group's financial assets (gross of allowance for impairment losses) as at December 31:

	2019					
	Minimal Risk	Current Average Risk	High Risk	Past Due (1-90 Days)	Credit Impaired	Total
Cash and cash equivalents*	P2,814,178,139	P-	P-	P-	P-	P2,814,178,139
Short-term cash investments	181,632,086	-	-	-	-	181,632,086
Trade and other receivables						
Trade receivables						
Power	1,578,133,517	-	-	-	33,467,626	1,611,601,143
Real estate	13,675,823	-	-	55,478,645	13,163,091	82,317,559
Product distribution and others	-	-	-	-	31,730,458	31,730,458
Due from related parties	1,399,743,565	-	-	-	-	1,399,743,565
Contract asset	1,182,196,755	-	-	-	-	1,182,196,755
Retention receivables	24,455,481	-	-	-	-	24,455,481
Other receivables**	38,320,708	-	-	-	5,074,645	43,395,353
Deposits in interest reserve account	968,735,875	-	-	-	-	968,735,875
	P8,201,071,949	P-	P-	P55,478,645	P83,435,820	P8,339,986,414

\*Excludes cash on hand amounting to P0.4 million as at December 31, 2019.

\*\*Excludes advances for business expenses and advances to employees totaling to P21.8 million as at December 31, 2019.

	2018					
	Minimal Risk	Current Average Risk	High Risk	Past Due (1-90 Days)	Credit Impaired	Total
Cash and cash equivalents*	P3,474,206,341	P-	P-	P-	P-	P3,474,206,341
Short-term cash investments	262,952,916	-	-	-	-	262,952,916
Trade and other receivables						
Trade receivables						
Power	655,756,453	-	-	669,831,053	33,467,626	1,359,055,132
Real estate**	15,502,426	-	-	66,256,564	13,163,091	94,922,081
Product distribution and others	-	-	-	-	31,730,458	31,730,458
Due from related parties	1,116,603,735	-	-	-	-	1,116,603,735
Contract asset	1,080,416,000	-	-	-	-	1,080,416,000
Retention receivables	44,455,481	-	-	-	-	44,455,481
Other receivables***	43,601,492	-	-	-	5,074,645	48,676,137
Deposits in interest reserve account	919,227,228	-	-	-	-	919,227,228
	P7,612,722,072	P-	P-	P736,087,617	P83,435,820	P8,432,245,509

\*Excludes cash on hand amounting to P0.4 million as at December 31, 2018.

\*\*Includes noncurrent portion of installment receivables amounting to P4.0 million as at December 31, 2018.

\*\*\*Excludes advances for business expenses and advances to employees totaling to P41.8 million as at December 31, 2018.

The Group classifies credit quality risk as follows:

*Minimal risk* - accounts with a high degree of certainty in collection, where counterparties have consistently displayed prompt settlement practices, and have little to no instance of defaults or discrepancies in payment.

*Average risk* - active accounts with minimal to regular instances of payment default, due to ordinary/common collection issues, but where the likelihood of collection is still moderate to high as the counterparties are generally responsive to credit actions initiated by the Group.



*High risk* - accounts with low probability of collection and can be considered impaired based on historical experience, where counterparties exhibit a recurring tendency to default despite constant reminder and communication, or even extended payment terms.

The following tables below summarize the staging considerations (other than trade receivables and contract assets subject to provision matrix) of the Group's financial assets as at December 31:

2019				
	Stage 1 (12-Month ECL)	Stage 2 (Life time ECL)	Stage 3 (Credit Impaired)	Total
Cash and cash equivalents*	₱2,814,178,139	₱-	₱-	₱2,814,178,139
Short-term cash investments	181,632,086	-	-	181,632,086
Trade and other receivables:				
Trade receivables				
Power	-	-	33,467,626	33,467,626
Real estate**	-	-	13,163,091	13,163,091
Product distribution and others	-	-	31,730,458	31,730,458
Due from related parties	1,399,743,565	-	-	1,399,743,565
Retention receivables	24,455,481	-	-	24,455,481
Other receivables***	38,320,708	-	5,074,645	43,395,353
Deposits in interest reserve account	968,735,875	-	-	968,735,875
	₱5,427,065,854	₱-	₱83,435,820	₱5,510,501,674

\*Excludes cash on hand amounting to ₱0.4 million as at December 31, 2019.

\*\*Includes noncurrent portion of installment receivables amounting to ₱2.0 million as at December 31, 2019.

\*\*\*Excludes advances for business expenses and advances to employees totaling to ₱21.8 million as at December 31, 2019.

2018				
	Stage 1 (12-Month ECL)	Stage 2 (Lifetime ECL)	Stage 3 (Credit-impaired)	Total
Cash and cash equivalents*	₱3,474,206,341	₱-	₱-	₱3,474,206,341
Short-term cash investments	262,952,916	-	-	262,952,916
Trade and other receivables:				
Trade receivables				
Power	-	-	33,467,626	33,467,626
Real estate**	-	-	13,163,091	13,163,091
Product distribution and others	-	-	31,730,458	31,730,458
Due from related parties	1,116,603,735	-	-	1,116,603,735
Retention receivables	44,455,481	-	-	44,455,481
Other receivables***	43,601,492	-	5,074,645	48,676,137
Deposits in interest reserve account	919,227,228	-	-	919,227,228
	₱5,861,047,193	₱-	₱83,435,820	₱5,944,483,013

\*Excludes cash on hand amounting to ₱0.4 million as at December 31, 2018.

\*\*Includes noncurrent portion of installment receivables amounting to ₱4.0 million as at December 31, 2018.

\*\*\*Excludes advances for business expenses and advances to employees totaling to ₱41.8 million as at December 31, 2018.

Set out below is the information about the credit risk exposure on trade receivables and contract assets using a provision matrix as of December 31:

2019					
Contract Assets	Current	Days Past Due		Total	
		1-90 Days	> 90 Days		
Expected credit loss rate	0%	0%	0%		
Estimated total gross carrying amount at default	₱1,182,196,755	₱1,578,133,517	₱-	₱-	₱2,760,330,272
Expected credit loss	-	-	-	-	-
Credit impaired	-	-	33,467,626	33,467,626	33,467,626
Total expected credit loss	₱-	₱-	₱-	₱33,467,626	₱33,467,626





2018					
	Contract Assets	Current	Days Past Due		Total
			1-90 Days	> 90 Days	
Expected credit loss rate	0%	0%	0%	0%	
Estimated total gross carrying amount at default	P1,080,416,000	P655,756,453	P669,831,053	P-	P2,406,003,506
Expected credit loss	-	-	-	-	-
Credit impaired	-	-	-	33,467,626	33,467,626
Total expected credit loss	P-	P-	P-	P33,467,626	P33,467,626

Set out below is the credit risk exposure on the Group's trade receivables from real estate sales using vintage analysis:

	2019	2018
Expected credit loss rate	0%	0%
Estimated total gross carrying amount at default	P69,154,468	P81,758,990

### Liquidity Risk

Liquidity risk arises from the possibility that the Group encounter difficulties in raising funds to meet or settle its obligations at a reasonable price. The Group maintains sufficient cash and cash equivalents to finance its operations. Any excess cash is invested in short-term money market placements. These placements are maintained to meet maturing obligations and pay dividend declarations.

As of March 19, 2020, the Group has on-going negotiations regarding refinancing of its currently maturing long-term debt and received two proposals from reputable banks.

The table below summarizes the maturity profile of the Group's financial liabilities based on contractual undiscounted payments and financial assets (held for liquidity purposes):

2019							
	Due and Demandable	Less than 3 Months	3-12 Months	More than 1 Year to 3 Years	4-5 Years	5 Years onwards	Total
<b>Financial Liabilities:</b>							
Accounts payable and other current liabilities*	P3,595,407,928	P309,134,039	P1,067,657	P-	P-	P-	P3,905,609,624
Short-term notes and loans payable**	-	820,220,868	998,000,000	-	-	-	1,818,220,868
Long-term debts**	-	-	7,770,359,789	10,512,353,668	6,366,892,939	7,488,610,922	32,138,217,318
Lease liability**	-	-	12,762,956	14,719,942	-	-	27,482,898
	P3,595,407,928	P1,129,354,907	P8,782,190,402	P10,527,073,610	P6,366,892,939	P7,488,610,922	P37,889,530,708
2019							
	Due and Demandable	Less than 3 Months	3-12 Months	More than 1 Year to 3 Years	4-5 Years	5 Years onwards	Total
<b>Financial Assets:</b>							
Cash and cash equivalents	P2,814,560,639	P-	P-	P-	P-	P-	P2,814,560,639
Short-term cash investments	-	-	181,632,086	-	-	-	181,632,086
Receivables	909,647,132	652,097,279	123,864,282	-	-	-	1,685,608,693
Deposits in interest reserve account	-	-	968,735,875	-	-	-	968,735,875
Due from related parties	1,399,743,565	-	-	-	-	-	1,399,743,565
Retention receivable	-	-	24,455,481	-	-	-	24,455,481
Equity investments designated at FVOCI	-	-	-	-	-	2,350,666,222	2,350,666,222
	P5,123,951,336	P652,097,279	P1,298,687,724	P-	P-	P2,350,666,222	P9,425,402,561

\* Excluding accrued interest, payable to government agencies, current portion of lease liability and advances from customers totaling to P375,041,164

\*\* Including interest payable computed using prevailing rate as at December 31, 2019



	2018						Total
	Due and Demandable	Less than 3 Months	3-12 Months	More than 1 Year to 3 Years	4-5 Years	5 Years onwards	
<b>Financial Liabilities:</b>							
Accounts payable and other current liabilities*	P3,613,643,415	P619,305,121	P1,327,695	P—	P—	P—	P4,234,276,231
Short-term notes and loans payable**	40,000,000	431,401,536	100,000,000	215,701	—	—	571,617,237
Long-term debts**	—	—	3,310,479,733	13,823,546,387	7,470,791,140	9,456,917,720	34,061,734,979
	<b>P3,653,643,415</b>	<b>P1,050,706,657</b>	<b>P3,411,807,428</b>	<b>P13,823,762,088</b>	<b>P7,470,791,140</b>	<b>P9,456,917,720</b>	<b>P38,867,628,447</b>
<b>Financial Assets:</b>							
Cash and cash equivalents	P3,474,561,841	P—	P—	P—	P—	P—	P3,474,561,841
Short-term cash investments	—	—	262,952,916	—	—	—	262,952,916
Receivables	722,030,358	574,241,332	58,656,130	96,020,168	—	—	1,450,947,988
Deposits in interest reserve account	—	—	919,227,228	—	—	—	919,227,228
Due from related parties	1,116,603,735	—	—	—	—	—	1,116,603,735
Retention receivable	—	—	—	44,455,481	—	—	44,455,481
Equity investments designated at FVOCI	—	—	—	2,358,327,598	—	—	2,358,327,598
	<b>P5,313,195,934</b>	<b>P574,241,332</b>	<b>P1,240,836,274</b>	<b>P2,498,803,247</b>	<b>P—</b>	<b>P—</b>	<b>P9,627,076,787</b>

\* Excluding accrued interest, payable to government agencies and advances from customers totaling to P423,628,614

\*\* Including interest payable computed using prevailing rate as at December 31, 2018

### Interest Rate Risk

Interest risk is the risk that changes in interest rates will adversely affect the Group's income or value of its financial instruments. The Group's exposure to market risk for changes in interest rates relates primarily to the Group's long-term debts obligations.

Interest on financial instruments classified as floating rate is repriced on a quarterly and semi-annual basis.

The table below demonstrates sensitivity analysis to a reasonably possible change in interest rates on long-term debts, with all other variables held constant, of the Group's income before income tax (through the impact on floating rate interest on borrowings).

There is no effect on equity other than those already affecting the consolidated statements of income.

	2019		2018	
	Increase in Basis Points	Decrease in Basis Points	Increase in Basis Points	Decrease in Basis Points
Change in basis points	+100	-100	+100	-100
Increase (decrease) in income before income tax	(P173,114,421)	P173,114,421	(P165,604,402)	P165,604,402



### Equity Price Risk

Equity price risk is the risk that the fair value of quoted AFS financial assets decreases as the result of changes in the value of individual stock. The Group's exposure to equity price risk relates primarily to the Group's quoted AFS financial assets. The Group's policy requires it to manage such risk by setting and monitoring objectives and constraints on investments; diversification plan; and limits on investment in each industry or sector. The Group intends to hold these investments indefinitely in response to liquidity requirements or changes in market conditions.

The following table demonstrates the sensitivity to a reasonably possible change in equity price, with all other variables held constant, of the Group's consolidated equity. The reasonably possible change in equity price was based on the year-to-year change of stock market indices. In quantifying the effect of reasonably possible change in equity price, the expected return on the AFS financial assets is correlated to the return of the financial market as a whole through the use of beta coefficients. The methods and assumptions used in the analysis remained unchanged over the reporting periods.

The table below summarizes the impact of changes in equity price on the consolidated equity. However, significant decrease in equity price may affect the consolidated income before income tax.

Equity price risk of those AFS financial assets listed in the Philippine Stock Exchange and secondary or broker market (for golf club shares) is as follows:

	2019		2018	
	Increase in Equity Price	Decrease in Equity Price	Increase in Equity Price	Decrease in Equity Price
Change in equity price	+1%	-1%	+1%	-1%
Increase (decrease) in equity	<b>₱1,292,575</b>	<b>(₱1,292,575)</b>	<b>₱1,369,188</b>	<b>(₱1,369,188)</b>

### Foreign Currency Risk

The Group's exposure to foreign currency risk is limited to monetary assets and liabilities denominated in currencies other than its functional currency. Substantial portion of the U.S. dollar-denominated assets and liabilities is attributable to the Group's power segment in which the functional currency is the U.S. dollar. The Group closely monitors the fluctuations in exchange rates so as to anticipate the impact of foreign currency risk associated with its financial instruments.

In translating the foreign currency-denominated monetary assets and liabilities into peso amounts, the Philippine peso to U.S. dollar exchange rates used was ₱50.64 to US\$1.0 and ₱52.58 to US\$1.0 for December 31, 2019 and 2018, respectively.

The table below summarizes the Group's exposure to foreign currency risk. Included in the table are the Group's financial assets and liabilities at their carrying amounts.

	2019		2018	
	In U.S. Dollar	In Philippine Peso	In U.S. Dollar	In Philippine Peso
Financial assets:				
Cash and cash equivalents	\$3,320,293	₱168,123,036	\$1,026,641	₱53,980,784
Short-term cash investments	2,204,643	111,632,098	2,025,376	106,494,270
Trade and other receivables	2,023,067	102,437,998	5,227,160	274,844,073
	7,548,003	382,193,132	8,279,177	435,319,127
Financial liabilities -				
Trade payables	(3,984,844)	(201,772,576)	(8,710,275)	(457,986,260)
	<b>\$3,563,159</b>	<b>₱180,420,556</b>	<b>(\$431,098)</b>	<b>(₱22,667,133)</b>



The table below demonstrates the sensitivity to a reasonably possible change in the U.S. dollar to Philippine peso exchange rate, with all other variables held constant, of the Group's income before income tax. The reasonably possible change in exchange rate was based on forecasted exchange rate change using historical data within the last five years as at the reporting period. The methods and assumptions used remained unchanged over the reporting periods being presented.

	2019		2018	
	Philippine Peso		Philippine Peso	
	Increase	Decrease	Increase	Decrease
Change in foreign exchange rate	+1.0	-1.0	+1.0	-1.0
Increase (decrease) in income before income tax	₱1,804,206	(₱1,804,206)	(₱226,671)	₱226,671

The increase in ₱ against US\$ means stronger U.S. dollar against peso while the decrease in ₱ against US\$ means stronger peso against U.S. dollar.

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

#### Capital Management

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

The Group considers its total equity and debt reflected in the consolidated statement of financial position as its capital. The Group manages its capital structure and makes adjustments to it, in the light of changes in economic conditions. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares and raise additional. No changes were made in the objectives, policies or processes in 2019 and 2018.

The Group monitors its capital based on debt to equity ratio as required by its loans agreements with financial institutions. The Group includes debt interest bearing loans and borrowings. Capital includes equity attributable to the equity holders of the parent less the other equity reserves. The Group monitors capital on the basis of the debt-to-equity ratio and interest coverage ratio in compliance for its long-term debts. Debt-to-equity ratio is calculated as total liabilities over total equity, excluding accounts payable and other current liabilities arising from operations and other reserves. Interest coverage ratio is calculated as earnings before interest, taxes, depreciation and amortization over total interest expense.

The Group's strategy, which was unchanged from prior year, was to maintain the debt-to-equity ratio and interest coverage ratio at manageable levels.

The Parent Company's debt-to-equity ratio and interest coverage ratio as required by its own long-term debt are as follows:

#### a. Debt-to-equity Ratio:

	2019	2018
Loans payable and short-term notes payable	₱1,731,017,268	₱450,059,273
Long-term debts	23,299,494,704	22,781,653,909
Interest payable	316,267,945	301,601,399
Total debt	25,346,779,917	23,533,314,581

(Forward)



	2019	2018
Total equity	₱11,492,275,686	₱11,494,843,770
Less equity reserves	2,494,321,789	2,518,570,606
Adjusted equity	₱8,997,953,897	₱8,976,273,164
Debt-to-equity ratio	2.82:1	2.62:1

b. Interest Coverage Ratio:

	2019	2018
Income before income tax	₱1,041,189,089	₱702,683,751
Add depreciation, amortization and interest expense	2,068,781,236	1,894,225,071
Less: Interest income	(118,193,175)	(62,966,406)
Total cash available for interest expense	2,991,777,150	2,533,942,416
Divided by interest expense	991,946,957	1,022,278,057
	3.02:1	2.48:1

Sarangani

Sarangani separately monitors its debt-to-equity ratio and debt service coverage ratio between Phase 1 and Phase 2 of the Project.

Sarangani's debt-to-equity ratio and debt service coverage ratios calculated using Sarangani's stand-alone financial statements are as follows:

a. Debt-to-equity Ratio:

	2019	2018
Current liabilities	₱4,614,442,864	₱3,448,479,818
Noncurrent liabilities	16,470,124,044	15,856,380,255
Total liabilities	21,084,566,908	19,304,860,073
Equity (including cash advances for future equity conversion)	10,754,944,541	10,153,471,625
Debt-to-equity ratio	1.96:1	1.90:1

b. Debt Service Coverage Ratio:

Phase 1

	2019	2018
Income before income tax	₱1,325,807,778	₱874,553,095
Add depreciation, amortization and interest expense	1,451,062,463	1,348,271,939
Total cash available for debt service	2,776,870,241	2,222,825,034
Divided by debt service	2,235,320,352	1,230,360,625
	1.24:1	1.81:1

Phase 2

As at December 31, 2019 and 2018, the Debt Service Coverage Ratio for loans related to Phase 2 is not yet applicable.



## 32. Financial and Non-financial Instruments

The Group held the following financial and non-financial instruments that are carried at fair value or where fair value is required to be disclosed:

As at December 31, 2019:

	Carrying value	Total	Fair Value		
			Level 1	Level 2	Level 3
<b>Financial Assets</b>					
Measured at fair value -					
Equity investments					
designated as FVOCI	₱2,350,666,222	₱2,350,666,222	₱41,287,453	₱88,110,000	₱2,221,268,769
<b>Non-financial Assets</b>					
Fair value is disclosed -					
Investments in real estate	191,394,011	1,035,405,000	—	—	1,035,405,000
	₱2,542,060,233	₱3,386,071,222	₱41,287,453	₱88,110,000	₱3,256,673,769
<b>Financial Liabilities</b>					
Fair value is disclosed -					
Long-term debts	₱23,299,494,704	₱23,119,355,208	₱—	₱—	₱23,119,355,208

As at December 31, 2018:

	Carrying value	Total	Fair Value		
			Level 1	Level 2	Level 3
<b>Financial Assets</b>					
Measured at fair value -					
Equity investments					
designated as FVOCI	₱2,358,327,598	₱2,358,327,598	₱48,048,830	₱88,110,000	₱2,222,168,768
<b>Non-financial Assets</b>					
Fair value is disclosed -					
Investments in real estate	191,436,343	934,050,000	—	—	934,050,000
	₱2,549,763,941	₱3,292,377,598	₱48,048,830	₱88,110,000	₱3,156,218,768
<b>Financial Liabilities</b>					
Fair value is disclosed -					
Long-term debts	₱22,781,653,909	₱21,345,790,304	₱—	₱—	₱21,345,790,304

During the years ended December 31, 2019 and 2018, there were no transfers between Level 1 and 2 fair value measurements, and no transfers into and out of Level 3 measurements.

The following methods and assumptions are used to estimate the fair value of each class of financial and non-financial instruments:

*Cash and cash equivalents, short-term cash investments, and trade and other receivables*

The carrying amounts of these financial assets approximate their fair values due to the short-term maturity of those instruments and the effect of discounting the instruments is not material.

*Financial assets at FVOCI*

The Group's financial assets include investments in quoted and unquoted securities and golf club shares. The fair value of investment in quoted securities is determined based on the closing market rate in PSE as at statement of financial position dates. The fair value of investment in golf club shares which are traded in organized financial markets is determined based on any price within the lower selling quotes and higher buyer quotes at the close of business at reporting date.



As of December 31, 2019 and 2018, the Group's investment in unquoted equity investments is measured at fair value using the adjusted net asset value approach as of December 31, 2019 and 2018, respectively (see Note 13).

The significant unobservable inputs used in the fair value measurements categorised within Level 3 of the fair value hierarchy, together with a quantitative sensitivity analysis are shown below:

As at December 31, 2019:

Significant unobservable inputs	Inputs	Increase (Decrease)	Amount
Price per square meter for Investment properties	₱22,484 - ₱77,000	+1% -1%	₱1,154,616 (1,154,616)
Multiplier to arrive at the estimated net realizable value for real estate inventories	2.39 times	+1% -1%	41,779,319 (41,779,319)
Discount for lack of marketability	10%	+10% -10%	(220,000,000) 220,000,000

As at December 31, 2018:

Significant unobservable inputs	Inputs	Increase (Decrease)	Amount
Price per square meter for Investment properties	₱22,484 - ₱77,000	+1% -1%	₱1,154,616 (1,154,616)
Multiplier to arrive at the estimated net realizable value for real estate inventories	2.29 times	+1% -1%	6,561,279 (6,561,279)
Discount for lack of marketability	10%	+10% -10%	(220,000,000) 220,000,000

*Accounts payable and other current liabilities and loans payable*

The carrying amounts of these financial liabilities approximate fair value because of the short-term maturity of these instruments.

*Long-term debts*

The fair value of long-term debts with variable interest rates approximates its carrying amounts due to quarterly repricing of interest. The fair value of long-term debts with fixed interest rate and long-term debts with variable interest rates subject to semi-annual repricing of interest is determined by discounting the estimated future cash flows using the discount rates applicable for similar types of instruments.

*Investments in real estate*

Refer to Note 10 for the basis of fair value.



### 33. Significant Agreements and Commitments

#### a. Operations and Maintenance (O&M) Service Agreements

Under an Advisory Service Agreement, AIL provides PT Makassar Power (PTMP), which is an independent power producer based in Indonesia, with technical advisory services in connection with the operation and maintenance of a power plant in Indonesia for specified monthly fee of \$44,600 from August 2011 to April 2012 and \$46,600 from May 2012 to April 2015. On April 20, 2015, PTMP extended the Advisory Service Agreement with AIL for another year starting May 1, 2015. On April 30, 2016, AIL's contract with PTMP officially ended.

No billings to PTMP in 2019, 2018 and 2017.

#### b. PSAs and ASPA

Starting December 13, 2015 and April 29, 2016, WMPC, and SPPC, respectively, arranged for PSAs with the following electric cooperatives and distribution utilities, for a period of 10 years:

##### WMPC

Contracting Party	Contracted Capacity (in Megawatts)
Zamboanga City Electric Cooperatives, Inc. (ZAMCELCO)	50
Cagayan Electric Power and Light Company, Inc. (CEPALCO)	30
	80

On September 25, 2017, CEPALCO requested to suspend its PSA starting October 2017 because based on the current supply-demand condition within its franchise area, CEPALCO will not be requiring the 30 megawatts capacity from WMPC for the meantime. Consequently, on September 26, 2017, WMPC agreed to the requested suspension. The unexpired term of the PSA between WMPC and CEPALCO shall be preserved and will resume upon prior written notice from the latter.

On September 8, 2018, WMPC filed an application with the ERC for the approval of ASPA between WMPC and National Grid Corporation of the Philippines (NGCP). On April 22, 2019, it was provisionally approved by the Energy Regulatory Commission (ERC) for a period of 5 years.

Revenue amounted to ₱1,158 million in 2019, ₱1,381 million in 2018 and ₱1,375 million in 2017.

##### SPPC

Contracting Party	Contracted Capacity (in Megawatts)
Davao Light Power Company (DLPC)	50
Cotabato Light and Power Company, Inc. (CLPC)	5
	55

The PSAs with CLPC and DLPC expired on April 28, 2018 and April 29, 2018, respectively, which were neither extended nor renewed. As of March 19, 2020, the SPPC has no operations.

Revenue amounted to ₱121 million in 2018 and ₱405 million in 2017.

As of March 19, 2020, SPPC's application for ASPA is with the Office of the President of NGCP for further review and approval.





### MPC

The details of MPC's contracted capacity (in Megawatts) with electric cooperatives based on the PSAs entered as at December 31 are as follows:

Contracting Party	Contracted Capacity (in Megawatts)	
	2019	2018
CEPALCO	30	30
Surigao Del Sur I Electric Cooperative, Inc. (SURSECO I)	4	4
	<b>34</b>	<b>34</b>

On January 8 and June 9, 2016, MPC entered into a PSA with CEPALCO and SURSECO I, respectively, to supply energy for a period of ten (10) years.

The PSAs with ZAMCELCO and ZANECO expired on March 3, 2018 and July 31, 2018, respectively, which were not extended nor renewed. On April 29, 2019, SURSECO I decided to fully terminate their contract with MPC effective December 26, 2019.

Revenue amounted to ₱440 million in 2019, ₱446 million in 2018 and ₱545 million in 2017.

### Sarangani

Sarangani entered into PSAs with the following parties for a period of 25 years.

#### *Phase 1 of the Project*

Contracting Party	Contracted Capacity (in Megawatts)
SOCOTECO II	70
Iligan Light and Power Inc.	15
Agusan del Norte Electric Cooperative	10
Agusan del Sur Electric Cooperative	10
	<b>105</b>

#### *Phase 2 of the Project*

Contracting Party	Contracted Capacity (in Megawatts)
Cagayan Electric Power and Light Company, Inc.	20
Davao del Norte Electric Cooperative, Inc.	15
Davao del Sur Electric Cooperative, Inc.	15
Cotabato Electric Cooperative, Inc.	10
South Cotabato I Electric Cooperative, Inc.	10
Zamboanga del Sur I Electric Cooperative Inc.	5
Zamboanga del Norte Electric Cooperative Inc.	5
	<b>80</b>

Revenue amounted to ₱5,411 million in 2019, ₱4,728 million in 2018 and ₱4,168 million in 2017.

### SRPI

In March 2013, SRPI entered into a PSA with ZAMCELCO for a period of 25 years from start of the SRPI's commercial operation. Contracted capacity for the related PSA was 85 MW. On September 15, 2014, the Energy Regulation Commission approved the above PSA. As at March 19, 2020, the Company has not started the construction of the ZAM 100 power plant. The



proposals for the Engineering, Procurement and Construction (EPC) rebidding were submitted on August 30, 2018. Selection of the contractor who will handle the construction of the project is expected to be concluded in March 2020. Meanwhile, the signing of contract and awarding of the Limited Notice to Proceed to the winning bidder is estimated to be in August 2020, with the issuance of Final Notice to Proceed in September 2020. The project is expected to be completed in May 2023.

c. Joint Venture Agreements

ALC has a Joint Venture Agreement with SLRDI for the development of ALC's parcels of land at General Trias, Cavite into a commercial and residential subdivision with golf courses, known as the Eagle Ridge Golf and Residential Estates (Eagle Ridge). The entire development shall be undertaken by SLRDI which shall receive 60% of the total sales proceeds of the lots of the subdivision, both commercial and residential, and of the golf shares. The remaining balance of 40% shall be for ALC. ALC's 40% share in the proceeds and in the cost of the lots sold is shown as part of "Sales of real estate" and "Cost of real estate sold" accounts, respectively, in the consolidated statements of income. ALC's share in the unsold lots is included under "Real estate inventories" account in the consolidated statements of financial position.

In 2006, ALC entered a joint venture agreement with Sunfields Realty Development Inc., the developer, for the development of ALC's parcels of land at Lipa and Malvar, Batangas into residential house and lots, called as the Campo Verde Subdivision. The entire development costs were shouldered by the developer. In return to their respective contributions to the project, the parties have agreed to assign a number of units of residential house and lots proportionate to their respective contributions computed as specified in the Memorandum of Agreement. The developer was assigned as the exclusive marketing agent and receives 10% of the total contract price, net of value-added tax and discounts, as marketing fee. Sales and cost of lots sold allocated to ALC are shown as part of "Real estate sales" and "Cost of real estate sales" accounts, respectively, in the consolidated statements of income.

On March 21, 2013, Aldevinco and ACIL (collectively referred as "AG") and Ayala Land, Inc. (ALI) entered into a joint venture agreement, where ALI shall own 60% and AG shall own 40% of the outstanding capital stock of the Joint Venture Corporation (JVC), Aviana. On September 17, 2013, Aviana was incorporated as the JVC. ACR has subscribed to 296 preferred shares and 32 common shares for 34% ownership in Aviana.

d. Marketing Agreements

ALC and SLRDI have a Marketing Agreement with Fil-Estate Group of Companies (FEGC) for the latter to market and sell the individual lots at Eagle Ridge. FEGC is entitled to a marketing commission of 12% of the sales contract price.

e. Engineering, Procurement and Construction Contract (EPC)

Sarangani

On March 30, 2011, Sarangani entered into EPC contract with the consortium of Daelim Industrial Co. Ltd, a company incorporated in Korea, and Daelim Philippines Incorporated, a company incorporated in the Philippines ("Contractor"). Under the terms of the contract, the Contractor shall perform any and all services and provide any and all equipment and construction equipment necessary to perform the work in accordance with the EPC contract on a fixed-price, turnkey basis and shall deliver a fully operational power plant facility (SM 200). On December 29, 2011 and May 24, 2012, Amendments 1 and 2 to the EPC, respectively, were



signed, revising certain portions of the EPC. Construction of Phase 1 of the SM200 commenced in January 2013 and was completed in April 2016.

On July 6, 2016, Sarangani entered into EPC contract with JGC Corporation, a company incorporated in Japan, and JGC Philippines, Inc., a company incorporated in the Philippines ("JGC"). Under the terms of the contract, JGC shall install the second 105 MW unit and associated auxiliaries in accordance with Sarangani's requirements. On October 14, 2016, the formal Notice to Proceed was issued to JGC.

- f. Registration with Zamboanga City Special Economic Zone Authority (ZAMBOECOZONE) and Kamanga Agro-Industrial Economic Zone

On November 20, 2012, SRPI obtained the certificate of registration and tax exemption issued by ZAMBOECOZONE. As a registered ZAMBOECOZONE enterprise, SRPI shall enjoy incentives and benefits provided for in Republic Act (R.A.) 7903 Sections 4(e) and 4(f) and Sections 43-44, 57-59 and 62 of R.A. 7903 throughout the Lease Agreement with ZAMBOECOZONE.

On June 7, 2011, PEZA approved Sarangani's registration as an Ecozone Utilities Enterprise inside Kamanga Agro-Industrial Economic Zone located at Barangay Kamanga, Maasim, Sarangani Province.

As a power generation registered economic zone enterprises SRPI and Sarangani are entitled to the following incentives:

- (a) Exemption from national and local taxes and in lieu thereof payment of a special tax rate of 5% on gross income; and
  - (b) Tax and duty free importation of capital equipment, machineries and spare parts. VAT-zero rating on local purchases subject to compliance with BIR and PEZA regulations/requirements.
- g. Joint Crediting Mechanism Grant (the JCM Grant) by the Ministry of Environment of Japan (MEJ)

On September 22, 2017, ACR, AREC, Toyota Tsusho Corporation (TTC) and the Company entered into agreement on International Consortium (the Consortium Agreement) in order to form a consortium and jointly develop and implement the 14.5 MW mini Hydro Power Plant Project in Siguil River in Mindanao which was granted Joint Crediting Mechanism Grant (the JCM Grant) by the Ministry of Environment of Japan (MEJ), for a maximum grant of JPY732.25 million, which was awarded, approved and announced by MEJ on October 20, 2017.

On November 14, 2017, the parties have entered into Memorandum of Agreement (MOA) and the parties have agreed that the Company shall pay TTC its service fee in relation to the JCM Grant. The service fee equivalent to JPY22 million for fiscal years March 31, 2019 and 2020, related to services to be rendered by TTC for the purpose of implementing the project such as, but not limited to: preparation of monthly and annual report in accordance with the JCM rules and submit the same to Global Environment Center Foundation (GEC); attendance to GEC meetings; arranging GEC's final inspection of the usage of the JCM Grant and the scheduled completion of the project, etc. For the year ended December 31, 2019, the Company paid ₱5.4 million to TTC.

Under the MOA, TTC shall remit the JCM Grant it received from MEJ within 30 days after the issuance of the Certificate of Provisional Acceptance (CPA) as defined in the Engineering, Procurement and Construction (EPC) contract and COD which means the date that the Company has declared to South Cotabato II Electric Cooperative, Inc. (SOCOTECO II) or any other off-



taker that, it is ready to deliver, and SOCOTECO II or any other off-taker is ready to accept, the contracted capacity and dispatchable energy mentioned in the Power Sales Agreement (PSA) between parties, which is still pending as of date. As of March 19, 2020, the Company has not yet received any fund from this grant agreement.

### 34. Contingencies

The Group is currently involved in certain regulatory matters of which estimate of the probable costs for its resolution has been developed in consultation with the Group's advisors handling the defense on these matters and is based on the analysis of potential results. Such potential results and estimate of potential liability are not reflected in the consolidated financial statements as management believes that it is not probable that the contingent liabilities will materialize affecting the Group's operations and consolidated financial statements.

### 35. Notes to Consolidated Statements of Cash Flows

- a. The principal noncash investing and financing activities are as follows:

	2019	2018	2017
Financing activities:			
Amortization of debt issue cost	₱73,486,107	₱74,907,303	₱55,904,550
Application of dividends to subscriptions receivable (Note 21)	(4,400,000)	(4,400,000)	(4,400,000)
Allocation of debt issue costs to undrawn portion of OLSA	—	(118,159,635)	157,956,627
Investing activities:			
Noncash additions to property, plant and equipment (reclassifications, unpaid portions, etc.)	(671,264,226)	(227,688,736)	(242,731,888)
Share in earnings of associates (Notes 11 and 27)	70,629,805	32,888,825	—
Unpaid dividend from an associate	2,000,000	—	—
Disposal of subsidiary without loss of control (Note 1)	—	—	1,495,267,800

- b. Reconciliation of the movement of liabilities arising from financing activities as at and for the years ended December 31, 2019 and 2018 are as follows:

	2019		
	Loans payable	Short-term notes payable	Long-term debts
Beginning balance	₱354,895,860	₱95,163,413	₱22,781,653,909
Cash movements:			
Availment of additional debt	1,273,380,919	2,451,055,305	1,600,000,000
Settlement of debt	(1,515,985,053)	(927,493,176)	(1,052,513,329)
Payment of debt issue costs	—	—	(103,131,983)
Noncash movements:			
Amortization of debt issue costs	—	—	73,486,107
Ending balance	₱112,291,726	₱1,618,725,542	₱23,299,494,704



	2018		
	Loans payable	Short-term notes payable	Long-term debts
Beginning balance	₱975,708,681	₱—	₱18,709,921,947
Cash movements:			
Availment of additional debt	3,270,762,994	100,000,000	6,450,000,000
Settlement of debt	(3,891,575,815)	—	(2,299,590,081)
Payment of debt issue costs	—	(5,997,368)	(34,274,844)
Noncash movements:			
Amortization of debt issue costs	—	1,160,781	73,756,522
Allocation of debt issue costs to undrawn portion of OLSA	—	—	(118,159,635)
Ending balance	₱354,895,860	₱95,163,413	₱22,781,653,909

- c. Reconciliation of the movement of interest payable and dividend payable arising from financing activities as at and for the years ended December 31, 2019 and 2018 are as follows:

	2019	
	Interest payable	Dividend payable
Beginning balance	₱301,601,399	₱185,000,000
Cash movements:		
Payment	(1,066,347,186)	(629,930,000)
Noncash movements:		
Declaration	—	593,330,000
Application of dividends to subscriptions receivable (Note 21)	—	(4,400,000)
Interest expense	1,081,013,732	—
Ending balance	₱316,267,945	₱144,000,000

	2018	
	Interest payable	Dividend payable
Beginning balance	₱280,059,023	₱—
Cash movements:		
Payment	(1,164,350,296)	(567,493,994)
Noncash movements:		
Declaration	—	756,893,994
Application of dividends to subscriptions receivable (Note 21)	—	(4,400,000)
Interest expense	1,185,892,672	—
Ending balance	₱301,601,399	₱185,000,000

### 36. Other Matters

- a. Electric Power Industry Reform Act (EPIRA)

RA No. 9136, the EPIRA of 2001, and the covering Implementing Rules and Regulations (IRR) provide for significant changes in the power sector which include among others:

- The unbundling of the generation, transmission, distribution and supply and other disposable assets, including its contracts with IPP and electricity rates;
- Creation of a Wholesale Electricity Spot Market within one year; and
- Open and non-discriminatory access to transmission and distribution systems.



The law also requires public listing of not less than 15% of common shares of generation and distribution companies within 5 years from the effectivity of the EPIRA. It provides cross ownership restrictions between transmission and generation companies and between transmission and distribution companies, and a cap of 50% of its demand that a distribution utility is allowed to source from an associated company engaged in generation except for contracts entered into prior to the effectivity of the EPIRA.

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

Based on the assessment of management, the operating subsidiaries have complied with the applicable provisions of the EPIRA and its IRR.

b. Clean Air Act

The Clean Air Act and the related IRR contain provisions that have an impact on the industry as a whole and on the Group in particular, that needs to be complied with. Based on the assessment made on the power plant's existing facilities, management believes that the operating subsidiaries complied with the applicable provisions of the Clean Air Act and the related IRR as at December 31, 2019 and 2018.

c. Subsequent Event

In a move to contain the COVID-19 outbreak, on March 13, 2020, the Office of the President of the Philippines issued a Memorandum directive to impose stringent social distancing measures in the National Capital Region effective March 15, 2020. On March 16, 2020, Presidential Proclamation No. 929 was issued, declaring a State of Calamity throughout the Philippines for a period of six (6) months and imposed an Enhanced Community Quarantine (ECQ) throughout the island of Luzon until April 12, 2020. These measures have caused disruptions to businesses and economic activities, and its impact on businesses continue to evolve. The Group activated its business continuity plan pursuant to the aforementioned pronouncements.

The Group considers the events surrounding the outbreak as non-adjusting subsequent events, which do not impact its financial position and performance as of and for the year ended December 31, 2019. However, the outbreak could have a material impact on its 2020 financial results and even periods thereafter. Considering the evolving nature of this outbreak, the Group cannot determine at this time the impact to its financial position, performance and cash flows. The Group will continue to monitor the situation. As of March 19, 2020, management is still assessing the impact of the COVID-19 pandemic. However, management has preliminarily assessed that power plant operations and expansion projects in the pipeline are still on track for completion amid the ECQ imposed in Luzon.



## **INDEPENDENT AUDITOR'S REPORT ON SUPPLEMENTARY SCHEDULES**

The Stockholders and the Board of Directors  
Alsons Consolidated Resources, Inc.  
Alsons Building, 2286 Chino Roces Avenue  
Makati City, Metro Manila, Philippines

We have audited in accordance with Philippine Standards on Auditing, the consolidated financial statements of Alsons Consolidated Resources, Inc. and Subsidiaries (the Group) as at December 31, 2019 and 2018 and for each of the three years in the period ended December 31, 2019, included in this Form 17-A, and have issued our report thereon dated March 19, 2020. Our audits were made for the purpose of forming an opinion on the basic financial statements taken as a whole. The schedules listed in the Index to the Consolidated Financial Statements and Supplementary Schedules are the responsibility of the Group's management. These schedules are presented for the purpose of complying with the Revised Securities Regulation Code Rule 68, and is not part of the basic financial statements. These schedules have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, fairly state, in all material respects, the financial information required to be set forth therein in relation to the basic financial statements taken as a whole.

SYCIP GORRES VELAYO & CO.

*Manolito R. Elle*

Manolito R. Elle

Partner

CPA Certificate No. 106471

SEC Accreditation No. 1618-AR-1 (Group A),

November 11, 2019, valid until November 10, 2022

Tax Identification No. 220-881-929

BIR Accreditation No. 08-001998-128-2019,

November 27, 2019, valid until November 26, 2022

PTR No. 8125233, January 7, 2020, Makati City

March 19, 2020



## **INDEPENDENT AUDITOR'S REPORT ON COMPONENTS OF FINANCIAL SOUNDNESS INDICATORS**

The Stockholders and the Board of Directors  
Alsons Consolidated Resources, Inc.  
Alsons Building, 2286 Chino Roces Avenue  
Makati City, Metro Manila, Philippines

We have audited in accordance with Philippine Standards on Auditing, the consolidated financial statements of Alsons Consolidated Resources, Inc. and Subsidiaries (the Group) as at December 31, 2019 and 2018 and for each of the three years in the period ended December 31, 2019, and have issued our report thereon dated March 19, 2020. Our audits were made for the purpose of forming an opinion on the basic financial statements taken as a whole. The Supplementary Schedule on Financial Soundness Indicators, including their definitions, formulas, calculation, and their appropriateness or usefulness to the intended users, are the responsibility of the Group's management. These financial soundness indicators are not measures of operating performance defined by Philippine Financial Reporting Standards (PFRS) and may not be comparable to similarly titled measures presented by other companies. This schedule is presented for the purpose of complying with the Revised Securities Regulation Code Rule 68 issued by the Securities and Exchange Commission, and is not a required part of the basic financial statements prepared in accordance with PFRS. The components of these financial soundness indicators have been traced to the Group's consolidated financial statements as at December 31, 2019 and 2018 and for each of the three years in the period ended December 31, 2019 and no material exceptions were noted.

SYCIP GORRES VELAYO & CO.

*Manolito R. Elle*

Manolito R. Elle

Partner

CPA Certificate No. 106471

SEC Accreditation No. 1618-AR-1 (Group A),

November 11, 2019, valid until November 10, 2022

Tax Identification No. 220-881-929

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PTR No. 8125233, January 7, 2020, Makati City

March 19, 2020





**ALSONS CONSOLIDATED RESOURCES, INC. AND SUBSIDIARIES**  
**INDEX TO THE CONSOLIDATED FINANCIAL STATEMENTS AND**  
**SUPPLEMENTARY SCHEDULES**  
**DECEMBER 31, 2019**

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Supplementary schedules required by the Revised Securities Regulation Code Rule 68:

- Reconciliation of retained earnings available for dividend declaration
- Map of the conglomerate or group of companies within which the reporting entity belongs