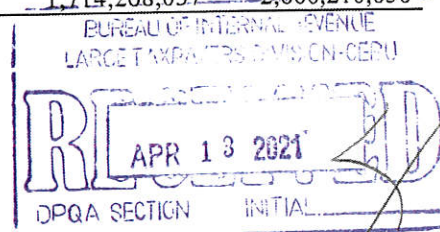


**SPC POWER CORPORATION**  
**PARENT COMPANY STATEMENTS OF CASH FLOWS**

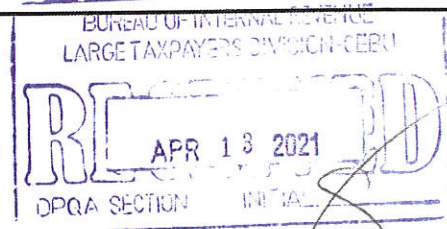
	Years Ended December 31		
	2020	2019	2018
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Income before income tax	₱1,896,274,646	₱1,869,403,084	₱2,015,034,184
Adjustments to reconcile income before income tax to net cash flows:			
Dividend income (Notes 5, 10 and 11)	(1,720,729,579)	(1,782,586,723)	(1,797,383,787)
Interest income (Note 6)	(47,362,989)	(89,347,432)	(41,191,175)
Depreciation and amortization (Notes 12 and 19)	40,720,148	36,544,512	13,141,696
Net changes in pension and asset retirement obligation (Note 21)	2,228,479	146,528	(21,025,415)
Unrealized foreign exchange loss (gain)	(396,648)	930,797	(1,500,841)
Interest expense (Notes 23 and 24)	370,931	680,963	881,545
Loss (gain) on disposal of assets (Note 12)	(107,143)	7,257,697	(959,788)
Provision for impairment on property, plant and equipment (Note 12)	—	—	14,266,880
Operating income before working capital changes	170,997,845	43,029,426	181,263,299
Decrease (increase) in:			
Trade and other receivables	(520,729)	337,308,509	(300,292,833)
Materials and supplies	(12,295,365)	(1,544,317)	275,244,672
Prepayments and other current assets	24,794,504	9,547,900	72,307,898
Increase (decrease) in trade and other payables	(8,455,099)	25,526,463	(737,130,874)
Net cash generated from (used in) operations	174,521,156	413,867,981	(508,607,838)
Income taxes paid	(51,810,215)	(25,129,002)	(69,500,863)
Interest received	47,362,989	89,347,432	41,191,175
Interest paid (Notes 23 and 24)	(370,931)	(680,963)	—
Net cash flows from (used in) operating activities	169,702,999	477,405,448	(536,917,526)
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Cash dividends received (Notes 5, 10 and 11)	1,720,729,579	1,782,586,723	1,797,383,787
Additions to property, plant and equipment (Note 12)	(9,284,043)	(63,247,565)	(56,219,762)
Cash inflows (outflows) arising from advances to suppliers and contractors and others (Notes 13 and 25)	5,992,020	(12,213,959)	1,143,453,081
Proceeds from disposal of property and equipment (Note 12)	107,143	7,142,858	1,593,750
Net cash flows from investing activities	1,717,544,699	1,714,268,057	2,886,210,856

(Forward)



	Years Ended December 31		
	2020	2019	2018
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
Cash dividends paid (Note 15)	(₱1,197,241,442)	(₱1,646,206,983)	(₱1,197,241,442)
Payment of principal portion of lease liabilities (Note 24)	(4,074,526)	(2,024,615)	—
Cash flows used in financing activities	(1,201,315,968)	(1,648,231,598)	(1,197,241,442)
<b>NET INCREASE IN CASH AND CASH EQUIVALENTS</b>	<b>685,931,730</b>	<b>543,441,907</b>	<b>1,152,051,888</b>
<b>EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS</b>	<b>396,648</b>	<b>(930,797)</b>	<b>1,500,841</b>
<b>CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR</b>	<b>2,743,899,203</b>	<b>2,201,388,093</b>	<b>1,047,835,364</b>
<b>CASH AND CASH EQUIVALENTS AT END OF YEAR (Note 6)</b>	<b>₱3,430,227,581</b>	<b>₱2,743,899,203</b>	<b>₱2,201,388,093</b>

See accompanying Notes to Parent Company Financial Statements.





## SPC POWER CORPORATION

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### NOTES TO PARENT COMPANY FINANCIAL STATEMENTS

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#### 1. Corporate Information

SPC Power Corporation (the Parent Company) was incorporated in the Republic of the Philippines and registered with the Philippine Securities and Exchange Commission (SEC) on March 11, 1994.

The Parent Company was formerly a venture company owned by members of the Salcon Consortium which entered into a Rehabilitation, Operation, Maintenance and Management Agreement (ROMM Agreement) with the National Power Corporation (NPC) on March 25, 1994 for the purpose of undertaking the rehabilitation, operation, maintenance and management of the 203.8 megawatt (MW) Naga Power Plant Complex (NPPC) in Colon, Naga, Cebu under the rehabilitate-operate-maintain-and-manage scheme as defined in the ROMM Agreement.

Under the ROMM Agreement, the Parent Company, at its own cost, rehabilitated, operated, maintained and managed the NPPC over the cooperation period of 15 years (Cooperation Period: up to May 29, 2009 for the Land-Based Gas Turbines (LBGTs), and up to March 25, 2012 for the Cebu Thermal Power Plant (CTPP) 1, CTPP 2 and Cebu Diesel Power Plants 1 (CDPP 1), as amended).

In resolutions dated September 28, 2001, the Board of Directors (BOD) and Stockholders amended the primary purposes for which the Parent Company is formed. Together with its subsidiaries and associates, it is engaged in various business activities within the Philippines that include, among others, the development, construction, rehabilitation, maintenance, management and operation of power generating plants, electricity distribution and related facilities in accordance with existing laws.

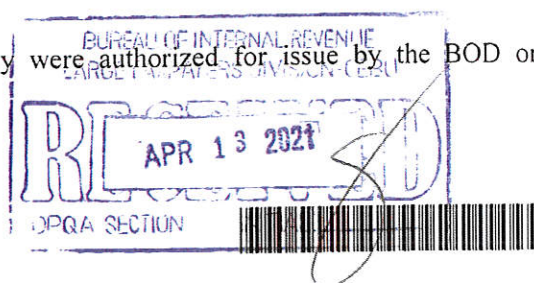
On April 2, 2002, the Parent Company's common shares were listed in the Philippine Stock Exchange (PSE) with ticker symbol: SPC (see Note 15).

On September 9, 2016, the Parent Company's BOD further amended the Parent Company's Articles of Incorporation in order to engage in the business of selling, brokering, marketing, or aggregating electricity to the end users. The amendments were subsequently approved and confirmed by written consent of the stockholders representing at least two-thirds of the outstanding capital stock of the Parent Company. On January 4, 2017, the SEC approved such amendment.

On April 15, 2016, SPC Island Power Corporation (SIPC), a wholly owned subsidiary of the Parent Company, submitted the highest offer to Power Sector Assets and Liabilities Management Corporation (PSALM) in the negotiated sale of the 32-MW Power Barge (PB) 104. On June 16, 2016, the Parent Company executed an Amendment, Accession and Assumption Agreement with PSALM and SIPC. Under the agreement, SIPC assigned all its rights and obligations as Buyer of PB 104 to the Parent Company after PSALM gave its consent pursuant to the provisions of the Asset Purchase Agreement between SIPC and PSALM. On June 30, 2016, PSALM turned over the PB 104 to the Parent Company (see Note 12).

The registered office address of the Parent Company is 7<sup>th</sup> Floor, Cebu Holdings Center, Archbishop Reyes Avenue, Cebu Business Park, Cebu City.

The financial statements of the Parent Company were authorized for issue by the BOD on April 7, 2021.



## 2. Basis of Preparation, Statement of Compliance and Changes in Accounting Policies and Disclosures

### Basis of Preparation

The Parent Company's financial statements have been prepared on a historical cost basis, except for financial assets at FVOCI which have been measured at fair value, and are presented in Philippine Peso, the Parent Company's functional currency. All amounts are rounded to the nearest Peso except as otherwise indicated.

The Parent Company also prepares and issues consolidated financial statements for the same period as the separate financial statements presented in accordance with Philippine Financial Reporting Standards (PFRSs). These may be obtained at 7<sup>th</sup> Floor, Cebu Holdings Center, Archbishop Reyes Avenue, Cebu Business Park, Cebu City.

### Statement of Compliance

The Parent Company's financial statements are presented in accordance with the PFRSs.

### Changes in Accounting Policies and Disclosures

The accounting policies adopted are consistent with those of the previous financial year, except for the following new and revised standards and Philippine Interpretations which were applied starting January 1, 2020. The Parent Company has not early adopted any standard, interpretation or amendment that has been issued but is not yet effective. Unless otherwise indicated, the adoption did not have any significant impact on the financial statements of the Parent Company.

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

The amendments to PFRS 3 clarifies that to be considered a business, an integrated set of activities and assets must include, at a minimum, an input and a substantive process that together significantly contribute to the ability to create output. Furthermore, it clarifies that a business can exist without including all of the inputs and processes needed to create outputs.

These amendments may impact future periods should the Parent Company enter into any business combinations.

- Amendments to PFRS 7, *Financial Instruments*: Disclosures and PFRS 9, *Financial Instruments*, Interest Rate Benchmark Reform

The amendments to PFRS 9 provide a number of reliefs, which apply to all hedging relationships that are directly affected by the interest rate benchmark reform. A hedging relationship is affected if the reform gives rise to uncertainties about the timing and or amount of benchmark-based cash flows of the hedged item or the hedging instrument.

These amendments did not have any impact on the financial statements of the Parent Company.

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

The amendments provide a new definition of material that states "information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity."





The amendments clarify that materiality will depend on the nature or magnitude of information, either individually or in combination with other information, in the context of the financial statements. A misstatement of information is material if it could reasonably be expected to influence decisions made by the primary users.

The amendments affect disclosures only and do not affect the Parent Company's financial statements.

- Conceptual Framework for Financial Reporting issued on March 29, 2018

The Conceptual Framework is not a standard, and none of the concepts contained therein override the concepts or requirements in any standard. The purpose of the Conceptual Framework is to assist the standard-setters in developing standards, to help preparers develop consistent accounting policies where there is no applicable standard in place and to assist all parties to understand and interpret the standards.

The revised Conceptual Framework includes new concepts, provides updated definitions and recognition criteria for assets and liabilities and clarifies some important concepts.

The adoption of the revised conceptual framework did not have any impact on the Parent Company's financial statements.

- Amendments to PFRS 16, COVID-19-related Rent Concessions

The amendments provide relief to lessees from applying the PFRS 16 requirement on lease modifications to rent concessions arising as a direct consequence of the COVID-19 pandemic. A lessee may elect not to assess whether a rent concession from a lessor is a lease modification if it meets all of the following criteria:

- The rent concession is a direct consequence of COVID-19;
- The change in lease payments results in a revised lease consideration that is substantially the same as, or less than, the lease consideration immediately preceding the change;
- Any reduction in lease payments affects only payments originally due on or before June 30, 2021; and
- There is no substantive change to other terms and conditions of the lease.

A lessee that applies this practical expedient will account for any change in lease payments resulting from the COVID-19 related rent concession in the same way it would account for a change that is not a lease modification, i.e., as a variable lease payment.

The amendments are effective for annual reporting periods beginning on or after June 1, 2020. Early adoption is permitted. The Parent Company adopted the amendments beginning January 1, 2020.

These amendments did not have any impact on the financial statements of the Parent Company because the Parent Company's lessors did not grant any lease concessions to the Parent Company during the year.



New Standards and Interpretation Issued and Effective after December 31, 2020

The Parent Company will adopt the pronouncements enumerated below when these become effective. Except as otherwise indicated, the Parent Company does not expect the future adoption of the said pronouncements to have significant impact on its financial statements.

*Effective beginning on or after January 1, 2021*

- Amendments to PFRS 9, PFRS 7, PFRS 4 and PFRS 16, Interest Rate Benchmark Reform - Phase 2

The amendments provide the following temporary reliefs which address the financial reporting effects when an interbank offered rate (IBOR) is replaced with an alternative nearly risk-free interest rate (RFR):

- Practical expedient for changes in the basis for determining the contractual cash flows as a result of IBOR reform;
- Relief from discontinuing hedging relationships; and
- Relief from the separately identifiable requirement when an RFR instrument is designated as a hedge of a risk component

The Parent Company shall also disclose information about:

- The about the nature and extent of risks to which the entity is exposed arising from financial instruments subject to IBOR reform, and how the entity manages those risks; and
- Their progress in completing the transition to alternative benchmark rates, and how the entity is managing that transition

The amendments are effective for annual reporting periods beginning on or after January 1, 2021 and apply retrospectively; however, the Parent Company is not required to restate prior periods.

*Effective beginning on or after January 1, 2022*

- Amendments to PFRS 3, Reference to the Conceptual Framework

The amendments are intended to replace a reference to the Framework for the Preparation and Presentation of Financial Statements, issued in 1989, with a reference to the Conceptual Framework for Financial Reporting issued in March 2018 without significantly changing its requirements. The amendments added an exception to the recognition principle of PFRS 3, *Business Combinations* to avoid the issue of potential 'day 2' gains or losses arising for liabilities and contingent liabilities that would be within the scope of PAS 37, *Provisions, Contingent Liabilities and Contingent Assets* or Philippine-IFRIC 21, *Levies*, if incurred separately. At the same time, the amendments add a new paragraph to PFRS 3 to clarify that contingent assets do not qualify for recognition at the acquisition date.

The amendments are effective for annual reporting periods beginning on or after January 1, 2022 and apply prospectively.

- Amendments to PAS 16, *Plant and Equipment*: Proceeds before Intended Use

The amendments prohibit entities deducting from the cost of an item of property, plant and equipment, any proceeds from selling items produced while bringing that asset to the location



and condition necessary for it to be capable of operating in the manner intended by management. Instead, an entity recognizes the proceeds from selling such items, and the costs of producing those items, in profit or loss.

The amendment is effective for annual reporting periods beginning on or after January 1, 2022 and must be applied retrospectively to items of property, plant and equipment made available for use on or after the beginning of the earliest period presented when the entity first applies the amendment.

The amendments are not expected to have a material impact on the Parent Company.

- Amendments to PAS 37, *Onerous Contracts - Costs of Fulfilling a Contract*

The amendments specify which costs an entity needs to include when assessing whether a contract is onerous or loss-making. The amendments apply a “directly related cost approach”. The costs that relate directly to a contract to provide goods or services include both incremental costs and an allocation of costs directly related to contract activities. General and administrative costs do not relate directly to a contract and are excluded unless they are explicitly chargeable to the counterparty under the contract.

The amendments are effective for annual reporting periods beginning on or after January 1, 2022. The Parent Company will apply these amendments to contracts for which it has not yet fulfilled all its obligations at the beginning of the annual reporting period in which it first applies the amendments.

- *Annual Improvements to PFRSs 2018–2020 Cycle*

- Amendments to PFRS 1, *First-time Adoption of Philippines Financial Reporting Standards*, Subsidiary as a first-time adopter

The amendment permits a subsidiary that elects to apply paragraph D16(a) of PFRS 1 to measure cumulative translation differences using the amounts reported by the parent, based on the parent’s date of transition to PFRS. This amendment is also applied to an associate or joint venture that elects to apply paragraph D16(a) of PFRS 1.

The amendment is effective for annual reporting periods beginning on or after January 1, 2022 with earlier adoption permitted. The amendments are not expected to have a material impact on the Parent Company.

- Amendments to PFRS 9, *Financial Instruments*, Fees in the ‘10 per cent’ test for derecognition of financial liabilities

The amendment clarifies the fees that an entity includes when assessing whether the terms of a new or modified financial liability are substantially different from the terms of the original financial liability. These fees include only those paid or received between the borrower and the lender, including fees paid or received by either the borrower or lender on the other’s behalf. An entity applies the amendment to financial liabilities that are modified or exchanged on or after the beginning of the annual reporting period in which the entity first applies the amendment.

The amendment is effective for annual reporting periods beginning on or after January 1, 2022 with earlier adoption permitted. The Parent Company will apply the amendments to





financial liabilities that are modified or exchanged on or after the beginning of the annual reporting period in which the entity first applies the amendment.

The amendments are not expected to have a material impact on the Parent Company.

- Amendments to PAS 41, *Agriculture*, Taxation in fair value measurements

The amendment removes the requirement in paragraph 22 of PAS 41 that entities exclude cash flows for taxation when measuring the fair value of assets within the scope of PAS 41.

An entity applies the amendment prospectively to fair value measurements on or after the beginning of the first annual reporting period beginning on or after January 1, 2022 with earlier adoption permitted.

The amendments are not expected to have any impact on the Parent Company.

*Effective beginning on or after January 1, 2023*

- Amendments to PAS 1, Classification of Liabilities as Current or Noncurrent

The amendments clarify paragraphs 69 to 76 of PAS 1, *Presentation of Financial Statements*, to specify the requirements for classifying liabilities as current or noncurrent. The amendments clarify:

- What is meant by a right to defer settlement;
- That a right to defer must exist at the end of the reporting period;
- That classification is unaffected by the likelihood that an entity will exercise its deferral right; and
- That only if an embedded derivative in a convertible liability is itself an equity instrument would the terms of a liability not impact its classification

The amendments are effective for annual reporting periods beginning on or after January 1, 2023 and must be applied retrospectively. The Parent Company has no existing loan agreements as of December 31, 2020 but the Parent Company will continue to assess the impact the amendments will have on the Parent Company.

- 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, 2023, with comparative figures required. Early application is permitted. This amendment does not have an impact on the financial statements of the Parent Company.

#### *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.

The amendments may apply to future transactions of the Parent Company.

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### **3. Summary of Significant Accounting Policies**

#### Cash and Cash Equivalents

Cash consists of 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 (3) months or less from dates of acquisition and that are subject to an insignificant risk of change in value.

#### Financial Instruments - Classification and Measurement

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

- Financial assets measured at amortized cost;
- Financial assets measured at fair value through profit or loss (FVPL);



- Financial assets measured at FVOCI, where cumulative gains or losses previously recognized are reclassified to profit or loss;
- Financial assets measured at FVOCI, where cumulative gains or losses previously recognized are not reclassified to profit or loss.

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

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

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

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

*Financial Assets at Amortized Cost.* A financial asset is measured at amortized cost if (a) it is held within a business model for which the objective is to hold financial assets in order to collect contractual cash flows and (b) the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

These financial assets are initially recognized at fair value plus directly attributable transaction costs and subsequently measured at amortized cost using the effective interest rate (EIR) method, less any impairment in value. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees and costs that are an integral part of the EIR. The amortization is included in "Interest income" in the statement of comprehensive income and is calculated by applying the EIR to the gross carrying amount of the financial asset, except for (a) purchased or originated credit-impaired financial assets and (b) financial assets that have subsequently become credit-impaired, where, in both cases, the EIR is applied to the amortized cost of the financial asset. Losses arising from impairment are recognized in "Provision for impairment losses" under "General and administrative expenses" in the parent company statements of comprehensive income.





As at December 31, 2020 and 2019, the Parent Company has financial assets at amortized cost consisting of cash and cash equivalents and trade and other receivables (see Notes 5, 6 and 7).

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

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

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

As at December 31, 2020 and 2019, the Parent Company does not have equity instruments at FVPL.

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

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

Dividends are recognized in profit or loss only when:

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

As at December 31, 2020 and 2019, the Parent Company's financial assets at FVOCI includes proprietary golf club shares recorded as part of "Other noncurrent assets" (see Notes 13 and 22).



*Classification of Financial Liabilities.* Financial liabilities are measured at amortized cost, except for the following:

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

A financial liability may be designated at fair value through profit or loss if it eliminates or significantly reduces a measurement or recognition inconsistency (an accounting mismatch) or:

- if a host contract contains one or more embedded derivatives; or
- if a group of financial liabilities or financial assets and liabilities is managed and its performance evaluated on a fair value basis in accordance with a documented risk management or investment strategy.

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

The Parent Company's financial liabilities include trade and other payables (see Notes 5 and 14).

#### Impairment of Financial Assets

The Parent Company uses the single, forward-looking "expected loss" impairment model and recognizes ECL for the following financial assets that are not measured at FVPL:

- Debt instruments that are measured at amortized cost and FVOCI;
- Loan commitments; and
- Financial guarantee contracts

No ECL is recognized on equity investments.

ECLs are measured in a way that reflects the following:

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

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

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



- *Stage 2: Lifetime ECL - not credit-impaired.* For credit exposures where there have been significant increases in credit risk since initial recognition on an individual or collective basis but are not credit-impaired, lifetime ECLs representing the ECLs that result from all possible default events over the expected life of the financial asset are recognized.
- *Stage 3: Lifetime ECL - credit-impaired.* Financial assets are credit-impaired when one or more events that have a detrimental impact on the estimated future cash flows of those financial assets have occurred. For these credit exposures, lifetime ECLs are recognized and interest revenue is calculated by applying the credit-adjusted effective interest rate to the amortized cost of the financial asset.

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

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

The Parent Company considers a debt investment security to have low credit risk when its credit risk rating is equivalent to the globally understood definition of 'investment grade', or when the exposure is less than 30 days past due.

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

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

*Simplified Approach.* The simplified approach, where changes in credit risk are not tracked and loss allowances are measured at amounts equal to lifetime ECL, is applied to 'Trade and other receivables'. The Parent Company has established a provision matrix for commercial and industrial business segments that is based on historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment.

The Parent Company considers a financial asset to be in default when internal or external information indicates that the Parent Company is unlikely to receive the outstanding contractual amounts in full before taking into account any credit enhancements held by the Parent Company.





#### Offsetting Financial Instruments

Financial assets and financial liabilities are offset and the net amount reported in the statement of financial position if, and only if, the Parent Company has a legally enforceable right to offset the recognized amounts and there is an intention to settle on a net basis, or to realize the asset and settle the liability simultaneously. The Parent Company assesses that it has a currently enforceable right of offset if the right is not contingent on a future event, and is legally enforceable in the normal course of business, event of default, and event of insolvency or bankruptcy of the Parent Company and all of the counterparties.

#### Derecognition of Financial Assets and Liabilities

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

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

*Financial Liabilities.* A financial liability is derecognized when the obligation under the liability is discharged or cancelled or has expired.

#### Fair Value Measurement

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

- In the principal market for the asset or liability; or
- In the absence of a principal market, in the most advantageous market for the asset or liability.

The principal or the most advantageous market must be accessible to the Parent Company.

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

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



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

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

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

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

#### Materials and Supplies

Materials and supplies, which consist of spare parts, fuel and consumables used in the operation, repairs and maintenance of the property, plant and equipment, are stated at the lower of cost and net realizable value (NRV). Cost is determined using the moving average method. NRV is the current replacement cost in the ordinary course of business.

#### Value-added Tax (VAT)

Revenue, expenses, and assets are recognized net of the amount of 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 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 statement of financial position to the extent of the recoverable amount.

#### Investments in Associates and Subsidiaries

The Parent Company's investments in associates and subsidiaries are accounted for at cost less any impairment loss, in accordance with PAS 27, *Separate Financial Statements*. An associate is an entity in which the Parent Company has significant influence and which is neither a subsidiary nor a joint venture. A subsidiary is an entity that is controlled by the Parent Company.

#### Property, Plant and Equipment

Property, plant and equipment are stated at cost, excluding the costs of day-to-day servicing, less accumulated depreciation and any allowance for impairment losses.

The initial cost of property, plant and equipment comprises its purchase price, including import duties and non-refundable purchase taxes, after deducting trade discounts and rebates and any directly attributable cost of bringing the asset to its working condition and location for its intended use. Such cost includes the cost of replacing part of such property, plant and equipment and borrowing costs for long term construction projects when the recognition criteria are met. Cost also includes asset retirement obligation specifically for property, plant and equipment installed/constructed on the leased properties.



Advances to suppliers and contractors to be applied as payment for assets to be classified as property, plant and equipment are presented as noncurrent asset and included as part of "Other noncurrent assets" in the statements of financial position.

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

The carrying amount of the replaced part, regardless of whether the replaced part had been depreciated separately, is derecognized if an entity recognizes in the carrying amount of an item of property, plant and equipment the cost of a replacement for part of the item. If it is not practicable for an entity to determine the carrying amount of the replaced part, it may use the cost of the replacement as an indication of what the cost of the replaced part was at the time it was acquired or constructed. When each major inspection is performed, its cost is recognized in the carrying amount of the item of property, plant and equipment as a replacement if the recognition criteria are satisfied.

Depreciation of property, plant and equipment commences once the assets are available for use and is computed on a straight-line basis over the estimated useful lives of the assets or lease term (for right-of-use assets), whichever is shorter, as follows:

Category	No. of Years
Buildings, plant machinery and equipment	2-15
Motor vehicles	2-5
Furniture and office equipment	2-12
Partitions and air conditioners	2-12
Right-of-use assets	2-3

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

When assets are retired or otherwise disposed of, the cost and the related accumulated depreciation and any allowance for impairment losses are removed from the accounts and any resulting gain or loss is credited to or charged to current operations.

Construction in progress (CIP) represents assets under construction and is stated at cost. This includes cost of construction, equipment and other direct costs. CIP is not depreciated until such time as the relevant assets are completed and available for operational use.

It is the Parent Company's policy to classify right-of-use assets as part of property and equipment. The Parent Company recognizes right-of-use assets at the commencement date of the lease (i.e., the date the underlying asset is available for use). Right-of-use assets are 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 Parent Company is reasonably certain to obtain ownership of the leased asset at the end of the lease term, the recognized right-of-use assets are depreciated on a straight-line basis over the shorter of their estimated useful life and lease term. Right-of-use assets are subject to impairment

#### Impairment of Nonfinancial Assets

The Parent Company assesses at each reporting date whether there is an indication that an asset may be impaired. If any such indication exists, or when annual impairment testing for an asset is required, the Parent Company makes an estimate of the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or cash-generating unit's fair value less costs to sell and 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 group of assets. Where 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 pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Impairment losses of continuing operations are recognized in the parent company statement of comprehensive 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 recoverable amount is estimated. 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 accumulated depreciation and amortization, had no impairment loss been recognized for the asset in prior years. Such reversal is recognized in the parent company statement of comprehensive income unless the asset is carried at revalued amount, in which case the reversal is treated as a revaluation increase. After such a reversal, the depreciation charge is adjusted in future periods to allocate the asset's revised carrying amount, less any residual value, on a systematic basis over its remaining useful life.

#### Equity

*Capital Stock.* Capital stock is recognized at par value for all issued shares.

*Additional Paid-in Capital.* Considerations received in excess of par value are recognized as additional paid-in capital, net of incremental costs that are directly attributable of the issuance of new shares.

*Treasury Shares.* These own equity instruments which are reacquired are recognized at cost and deducted from equity. No gain or loss is recognized in the parent company statement of comprehensive income on the purchase, sale, issue or cancellation of the Parent Company's own equity instruments. Any difference between the carrying amount and the consideration, if reissued, is recognized in additional paid-in capital.

*Retained Earnings.* Retained earnings include cumulative balance of periodic net income or loss, dividend contributions, prior period adjustments, effect of changes in accounting policy and other capital adjustments. Dividends are recognized as liability and deducted from retained earnings when they are declared.





#### Revenue Recognition

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 Parent Company expects to be entitled in exchange for those goods or services, excluding amounts collected on behalf of third parties.

Revenue is recognized when the Parent Company satisfies a performance obligation by transferring a promised good or service to the customer, which is when the customer obtains control of the good or service. A performance obligation may be satisfied at a point in time or over time. The amount of revenue recognized is the amount allocated to the satisfied performance obligation.

The Parent Company has concluded that it is the principal in its revenue arrangements because it controls the goods or services before these goods or services are transferred to the customer. The following specific recognition criteria must also be met before revenue is recognized:

*Operating Fees.* Revenue consists of: (i) fees from National Grid Corporation of the Philippines for rendering ancillary services; and (ii) energy fees for electricity sold to the Wholesale Electricity Spot Market (WESM).

The Parent Company has concluded that revenue should be recognized over time since the customer simultaneously receives and consumes the benefit as the seller supplies power. For power generation where capacity and energy dispatched are separately identified, these two obligations are to be combined as one performance obligation since these are not distinct within the context of the contract as the buyer cannot benefit from the contracted capacity alone 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. In contracts with fixed capacity payments which are determined at contract inception, the fixed capacity payments for the entire contract period is determined at day 1 and is recognized over time.

Some contracts with customers provide unspecified quantity of energy, and includes provisional Energy Regulatory Commission (ERC) rates. The variable consideration is estimated at contract inception and constrained until the associated uncertainty is subsequently resolved.

*Interest Income.* Interest income is recognized as interest accrues taking into account the effective yield of the asset.

*Dividend Income.* Dividend income from investments in associates and subsidiaries is recognized when the Parent Company's right to receive payment is established.

*Other Income.* Other income is recognized as earned when the related services or performance obligations are rendered.

#### Cost and Expense Recognition

Cost and expenses are recognized in the parent company statement of comprehensive income when incurred.



### Leases

The Parent Company assesses at contract inception whether a contract is, or contains, a lease. That is, if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

*Parent Company as a lessee.* The Parent Company applies a single recognition and measurement approach for all leases, except for 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) and leases of low-value assets. The Parent Company recognizes lease liabilities to make lease payments and right-of-use assets representing the right to use the underlying assets.

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

In calculating the present value of lease payments, the Parent Company uses its incremental borrowing rate at the lease commencement date because the interest rate implicit in the lease is not readily determinable. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is remeasured if there is a modification, a change in the lease term, a change in the lease payments (e.g., changes to future payments resulting from a change in an index or rate used to determine such lease payments) or a change in the assessment of an option to purchase the underlying asset.

### Pension Expense

The Parent Company has a funded, noncontributory defined pension plan covering all regular and permanent employees. The cost of providing benefits is determined using the projected unit credit method. This method considers each period of service as giving rise to an additional unit of benefit entitlement and measures each unit separately to build up the final obligation.

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, 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.

Defined benefit costs comprise the following:

- Service cost;
- Net interest on the net defined benefit liability; and
- Remeasurements of net defined benefit liability.

Service costs which include current service costs, past service costs and gains or losses on non-routine settlements are recognized as expense in the parent company-statement of comprehensive 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 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 is recognized as expense or income in the parent company statement of comprehensive income.

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

Plan assets are assets that are held by a long-term employee benefit fund or qualifying insurance policies. Plan assets are not available to the creditors of the Parent Company, nor can they be paid directly to the Parent Company. 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.

#### Income Tax

*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 taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted as at the reporting date.

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

The carrying amount of deferred income tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax assets to be utilized.

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

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

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



The Parent Company records uncertain tax positions on the basis of a two-step process whereby the Parent Company determines whether it is more likely than not that the tax positions will be sustained based on technical merits of the position, and for those tax positions that meet the more likely than not criteria, the Parent Company recognizes the largest amount of tax benefit that is greater than 50% likely to be realized upon ultimate settlement with related tax authority. The Parent Company records interest and penalties on uncertain tax positions in "Income tax expense (benefit)" account in the parent company statement of comprehensive income.

#### Related Party Transactions

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

#### Provisions

Provisions are recognized when the Parent Company has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation. Where the Parent Company expects some or all of a provision to be reimbursed, for example under an insurance contract, the reimbursement is recognized as a separate asset but only when the reimbursement is virtually certain. If the effect of the time value of money is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessment of the time value of money and, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognized as interest expense.

#### Foreign Currency-Denominated Transactions

The Parent Company's financial statements are presented in Philippine Peso, the Parent Company's functional currency. Transactions in foreign currencies are initially recorded in the functional currency rate prevailing at the date of the transaction.

Monetary assets and liabilities denominated in foreign currencies are restated at the functional currency rate of exchange ruling at the reporting date. All differences are directly charged against or credited to current operations.

Nonmonetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions. Nonmonetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

#### Earnings per Share

Basic earnings per common share is determined by dividing net income by the weighted average number of common shares outstanding, after retroactive adjustment for any stock dividend and stock splits declared during the year.

Diluted earnings per common share is calculated by dividing the net income for the year attributable to the ordinary equity holders of the Parent Company by the weighted average number of common shares outstanding during the year plus the weighted average number of ordinary shares that would be issued for any outstanding common stock equivalents.





#### Segment Reporting

For management purposes, the Parent Company is organized into business units based on their services and has only one single operating segment as of December 31, 2020 and 2019. No operating segments have been aggregated to form the Parent Company's single operating segment. Management monitors the operating results of its business units separately for the purpose of making decisions about resource allocation and performance assessment. Segment performance is evaluated based on operating profit or loss and is measured consistently with operating profit or loss in the parent company financial statements.

#### Contingencies

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

#### Events After the Reporting Period

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

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#### **4. Significant Accounting Judgments and Estimates**

The Parent Company's financial statements, prepared in compliance with PFRSs, require the Parent Company to make judgments and estimates that affect amounts reported in the parent company financial statements and related notes. In preparing these financial statements, the Parent Company made its best judgments and estimates of certain amounts, giving due consideration to materiality. The Parent Company believes that the following represent a summary of these significant accounting judgments and estimates and the related impact and associated risks in the parent company financial statements.

##### Judgments

In the process of applying the Parent Company's accounting policies, management has made judgments, apart from those involving estimations, which have the most significant effect on the amounts recognized in the parent company financial statements.

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

The Parent Company's revenue from power generation is to be recognized over time since customers simultaneously receive and consume the benefits as the Parent Company supplies power.



Significant judgments in revenue recognition are as follows:

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

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

For power generation and ancillary services where capacity and energy dispatched are separately identified, these two obligations are to be combined as one performance obligation since these are not distinct within the context of the contract as the buyer cannot benefit from the contracted capacity alone 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.

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

For power generation and ancillary services, the Parent Company determined that the output method is the best method in measuring progress since actual electricity is supplied to customers. The Parent Company recognizes revenue based on:

- For the variable energy payment, actual kilowatt hours consumed which are billed on a monthly basis.
- For fixed capacity payments, the Parent Company allocates the transaction price on a straight-line basis over the contract term. The allocated fixed payments are also billed on a monthly basis.
- *Determining Method to Estimate Variable Consideration and Assessing the Constraint.* The Parent Company includes some or all the amounts of variable consideration estimated but only to the extent that it is highly probable that a significant reversal in the amount of cumulative revenue recognized will not occur when the uncertainty associated with the variable consideration is subsequently resolved. The Parent Company considers both the likelihood and magnitude of the revenue reversal in evaluating the extent of variable consideration the Parent Company will subject to constraint. Factors such as i) highly susceptibility to factors outside the Parent Company's influence, ii) timing of resolution of the uncertainty, and iii) having a large number and broad range of possible considerations amount are considered.



Some contracts with customers provide unspecified quantity of energy, provisional ERC rates, and prompt payment discounts that give rise to variable consideration. In estimating the variable consideration, the Parent Company applies the expected value method in estimating the variable consideration given the large number of customer contracts that have similar characteristics and the range of possible outcomes.

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

- *Allocation of variable consideration.* Variable consideration may be attributable to the entire contract or to a specific part of the contract. For power generation, power and ancillary services 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 Parent Company 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, and forms part of the monthly billing of the Parent Company.

*Assessment of Control Over SECI.* Control is presumed to exist when the Parent Company 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 the other hand, significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control of those policies. Management has determined that the Parent Company has the ability to control the operating and financial activities of SECI by virtue of an agreement. The other stockholder (an individual stockholder owning 60% of the outstanding capital stock of SECI and also a major stockholder of the Parent Company) delegates and entrusts all the decisions in the operational and finance functions of SECI to the Parent Company who owns 40% of the outstanding capital stock of SECI.

#### Estimates and Assumptions

*Estimating Expected Credit Losses on Trade and Other Receivables using Simplified Approach.* The Parent Company uses the provision matrix to calculate ECLs for these receivables. The Parent Company calculates provision rates based on days past due for a group of various customer or debtor segments that have similar loss patterns (i.e., customer type).

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

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



The Parent Company incorporates forward-looking information into both its assessment of whether the credit risk of an instrument has increased significantly since its initial recognition and its measurement of ECL.

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

Predicted relationship between the key indicators and default and loss rates on various portfolios of financial assets have been developed based on analyzing historical data over the past 3 years. The methodologies and assumptions including any forecasts of future economic conditions are reviewed regularly.

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

An increase in the Parent Company's allowance for expected credit losses of trade and other receivables will increase the Parent Company's recorded expenses and decrease current assets. As of December 31, 2020 and 2019, allowance for expected credit losses amounted to ₱3.7 million and ₱4.0 million, respectively (see Notes 5 and 7). These receivables, net of allowance for expected credit losses, amounted to ₱76.1 million and ₱75.6 million as of December 31, 2020 and 2019, respectively (see Note 7).

*Estimating Allowance for Materials and Supplies Losses.* The Parent Company provides allowance for losses related to materials and supplies whenever the value of these materials and supplies becomes lower than cost due to damage, physical deterioration or obsolescence. The amounts and timing of the recorded expenses for any period would differ if the Parent Company made different judgments or utilized different estimates. An increase in allowance for losses would increase recorded expenses and decrease current assets.

No allowance for losses is recorded as of December 31, 2020 and 2019 (see Note 8). The carrying value of the materials and supplies amounted to ₱70.3 million and ₱58.0 million as of December 31, 2020 and 2019, respectively (see Note 8).

*Estimating Useful Lives of Property, Plant and Equipment.* The Parent Company estimates the useful lives of property, plant and equipment based on the period over which the assets are expected to be available for use or lease term, whichever is shorter. The estimated useful lives of property, plant and equipment are reviewed periodically and are updated if expectations differ from previous estimates due to physical wear and tear, technical or commercial obsolescence and legal or other limits on the use of the assets. In addition, the estimation of the useful lives of property, plant and equipment is based on collective assessment of internal technical evaluation and experience with similar assets. However, it is possible that future results of operations could be materially affected by changes in estimates brought about by changes in factors mentioned above. The amounts and timing of recording expenses for any period would be affected by changes in these factors and circumstances.





The Parent Company recognized depreciation expense amounting to ₱40.1 million, ₱35.9 million and ₱12.4 million in 2020, 2019 and 2018, respectively (see Note 19). As of December 31, 2020 and 2019, the aggregate net book values of property, plant and equipment subjected to depreciation amounted to ₱418.7 million and ₱449.5 million, respectively (see Note 12).

*Estimating Impairment of Property, Plant and Equipment.* Property, plant and equipment are reviewed and tested whenever there is an indication of impairment and are reassessed at least each reporting date. Factors such as significant underperformance of an asset relative to expected historical or projected future operating results, significant changes in the manner of use of the acquired assets, or significant negative industry or economic trends are considered by the Parent Company in assessing whether there is an indication that an asset's carrying amount may exceed its recoverable amount.

The Parent Company recognized impairment loss amounting to ₱14.3 million in 2018 and nil in 2020 and 2019 (see Note 17). As of December 31, 2020 and 2019, the aggregate net book values of property, plant and equipment amounted to ₱418.7 million and ₱449.5 million, respectively (see Note 12).

*Estimating Impairment of Investments in Associates and Investments in Subsidiaries.* The Parent Company assesses whether there are any indicators of impairment on investments in associates and subsidiaries at each reporting date. Investments in associates and subsidiaries are tested for impairment whenever events or changes in circumstances indicate that the carrying amount of the asset may not be recoverable. The recoverable amount of investments in associates and investments subsidiaries is based on fair value less cost to sell. Fair value less cost to sell is determined to be the amount obtainable from the sale of the underlying net assets of the associate or subsidiary. The carrying amounts of investments in associates as of December 31, 2020 and 2019 amounted to ₱2,852.5 million (see Note 10). The carrying amounts of investments in subsidiaries as of December 31, 2020 and 2019 amounted to ₱341.2 million (see Note 11). Based on management's assessment, the Parent Company's investments in associates and investments in subsidiaries are fairly stated, thus no impairment loss was recognized in 2020, 2019 and 2018.

*Estimating Realizability of Deferred Income Tax Assets.* The Parent Company reviews the carrying amounts of deferred income tax assets at each reporting date and reduces deferred income tax assets 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. However, there is no assurance that the Parent Company will utilize all or part of the deferred income tax assets. The Parent Company's assessment on the recognition of deferred income tax assets on deductible temporary differences is based upon the likely timing and level of future taxable profits determined from the tax planning strategies of the Parent Company. The Parent Company has no deferred income tax assets as of December 31, 2020 and 2019, (see Note 20).

*Determining Fair Value of Financial Assets and Financial Liabilities.* PFRS requires that certain financial assets and liabilities be carried at fair value, which requires extensive use of accounting estimates and judgment. While significant components of fair value measurement were determined using verifiable objective evidence (i.e., foreign exchange rates, interest rates, volatility rates), the amount of change in fair value would differ if the Parent Company utilized a different valuation methodology. Any change in fair value of these financial assets and liabilities would affect the parent company statement of comprehensive income and the parent company statements of changes in equity.



Fair value of financial assets as of December 31, 2020 and 2019 amounted to ₱3,513.8 million and ₱2,826.8 million, respectively. Fair value of financial liabilities as of December 31, 2020 and 2019 amounted to ₱57.8 million and ₱77.4 million, respectively.

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## 5. Related Party Transactions

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party in making financial and operating decisions or the parties are subject to common control or common significant influence.

The Parent Company's policy on material related party transactions is in compliance with the Philippine SEC Memorandum Circular No. 10, Series of 2019, or the *Rules on Material Related Party Transactions for Publicly-Listed Companies*.

The policy covers related party transactions that meet the materiality threshold of 10% of the Parent Company's total assets. It defines the processes, controls and safeguards for the proper handling, including review, approval and disclosure, of such related party transactions in accordance with applicable laws and regulations.

The Parent Company, in the normal course of business, has significant transactions with related parties which principally consist of the following:

- Management services rendered to SIPC where management fee earned by the Parent Company amounted to ₱0.4 million in 2020, 2019 and 2018 is included as part of "Others - net" in the parent company statements of comprehensive income.
- In 2019, the Parent Company sold some items from its noncurrent asset held for sale to SIPC for ₱6.2 million including hauling costs incurred by the Parent Company.
- Extension of noninterest-bearing advances to SIPC for working capital requirements and receivables relating to the purchase of materials and supplies made by the Parent Company on behalf of SIPC. Outstanding receivables related to these transactions amounted to ₱0.1 million and ₱1.1 million as of December 31, 2020 and 2019, respectively.
- Extension of noninterest-bearing advances to Bohol Light Company, Inc. (BLCI) for working capital requirements. Outstanding advances amounted to ₱0.6 million as of December 31, 2020 and 2019.
- Cash dividends earned from subsidiaries, SIPC, BLCI, SPC Electric Company, Inc. (SECI), SPC Malaya Power Corporation (SMPC), and SPC Light Company, Inc. (SLCI) amounted to ₱339.7 million, ₱364.6 million and ₱387.6 million in 2020, 2019 and 2018, respectively (see Note 11).
- Rendering of management and other services to Mactan Electric Company, Inc. (MECO), an associate, amounting to ₱120.0 million in 2020 and 2018 and ₱123.6 million in 2019, are recorded as "Service income" in the parent company statements of comprehensive income.



- Extension of short-term, noninterest-bearing advances to KEPCO SPC Power Corporation (KEPCO SPC), an associate, for the development of the 2x100 MW Circulating Fluidized Bed Combustion (CFBC) Boiler Coal-Fired Power Plant in Naga, Cebu. Outstanding advances to KEPCO SPC amounted to ₱0.7 million as of December 31, 2020 and 2019, respectively.
- Cash dividends received from associates (KEPCO SPC and MECO) amounted to ₱1,381.0 million, ₱1,412.0 million and ₱1,409.8 million in 2020, 2019 and 2018, respectively (see Note 10).
- Rentals on office spaces from SPEC Properties, Inc. (SPEC) and SII Properties Development Corporation (SPDC) with lease terms ranging from 2–3 years amounted to ₱4.3 million in 2020 and 2019 and ₱4.0 million in 2018. Upon adoption of PFRS 16, lease liabilities were recognized on the unpaid rentals until the end of lease term for these office spaces.
- Extension/availment of noninterest-bearing advances to/from related parties for working capital requirements.

The results of these transactions are presented in the appropriate accounts in the parent company financial statements. The amounts of due from/due to related parties and trade and other receivables follow:

2020				
Category	Transaction	Outstanding Balance - Receivable (Payable)	Terms	Conditions
<b>Subsidiaries</b>				
Management services:				
SIPC*	₱410,714	₱–	60-day; noninterest-bearing	Unsecured, no impairment
Sale of LBGT (see Note 7):				
SIPC*	–	6,192,074	Due and demandable	Unsecured, no impairment
Extension (availment) of advances:				
SIPC**	1,084,240	125,766	60-day; noninterest-bearing	Unsecured
SIPC***	1,985,387	(1,584,933)	60-day; noninterest-bearing	Unsecured, no impairment
BLCI**	539,496	594,999	60-day; noninterest-bearing	Unsecured, no impairment
BLCI***	13,750	(129,251)	60-day; noninterest-bearing	Unsecured
SMPC**	2,013	18,168	60-day; noninterest-bearing	Unsecured, no impairment
SECI**	25	6,057	60-day; noninterest-bearing	Unsecured, no impairment
SLCI**	915	6,947	60-day; noninterest-bearing	Unsecured, no impairment
CNPC**	17,403	159,155	60-day; noninterest-bearing	Unsecured, no impairment
Dividend income (see Note 11):				
SIPC	299,999,940	–	Due and demandable	Unsecured
BLCI	22,942,495	–	Due and demandable	Unsecured
SECI	7,565,518	–	Due and demandable	Unsecured
SLCI	9,204,715	–	Due and demandable	Unsecured
<b>Associates</b>				
Management services:				
MECO	120,007,156	–	60-day; noninterest-bearing	Unsecured

(Forward)



2020				
Category	Transaction	Outstanding Balance - Receivable (Payable)	Terms	Conditions
Extension (availment) of advances:				
KEPCO SPC**	P-	P719,579	60-day;	Unsecured,
			noninterest-bearing	no impairment
MECO	990	-	60-day;	Unsecured,
			noninterest-bearing	no impairment
Dividend income (see Note 10):				
KEPCO SPC	1,357,016,938	-	Due and demandable	Unsecured,
				no impairment
MECO	23,999,973	-	Due and demandable	Unsecured,
				no impairment
<b>Affiliates (Companies Under Common Ownership)</b>				
Lease of office space: ****				
SPEC	3,651,136	(912,784)	30-day;	Unsecured
			Noninterest-bearing;	
SPDC	691,317	(172,829)	30-day; Noninterest-bearing; 3% annual escalation	Unsecured
Extension (availment) of advances:				
Bohol Water Utilities, Inc. (BWUI)**	160,358	231,929	60-day;	Unsecured,
			noninterest-bearing	no impairment
SPDC**	70,659	322,638	60-day;	Unsecured
			noninterest-bearing	
SPDC***	215,160	(215,160)	60-day;	Unsecured,
			noninterest-bearing	no impairment
Salcon International, Inc. (SII)**	37,400	88,552	60-day;	Unsecured,
			noninterest-bearing	no impairment
Salcon Philippines, Inc. (SPI)**	37,025	81,975	60-day;	Unsecured,
			noninterest-bearing	no impairment
SIPC Water Resources, Inc. (SWRI)**	-	193,545	60-day;	Unsecured,
			noninterest-bearing	no impairment
Western Panay Hydropower Corp. (WPHC)**	-	97,537	60-day;	Unsecured,
			noninterest-bearing	no impairment
Pure and Pam, Inc. **	-	75,000	60-day;	Unsecured,
			noninterest-bearing	no impairment
SPEC**	65,895	132,749	60-day;	Unsecured,
			noninterest-bearing	no impairment
KV Holdings, Inc.**	13,615	17,547	60-day;	Unsecured,
			noninterest-bearing	no impairment
Kepco Philippines Corp. ***	-	(497,043)	60-day;	Unsecured
			noninterest-bearing	no impairment
Officers and employees*	5,881,931	8,092,171	60-day;	Unsecured,
			non-interest bearing	no impairment
* Under "Trade and other receivables"				
** Under "Due from related parties"				
*** Under "Due to related parties"				
**** Under "Lease liabilities"				

2019				
Category	Transaction	Outstanding Balance - Receivable (Payable)	Terms	Conditions
Subsidiaries				
Management services:				
SIPC*	P410,714	P-	60-day;	Unsecured,
			noninterest-bearing	no impairment
Sale of LBGT (see Note 7):				
SIPC*	6,192,074	6,192,074	Due and demandable	Unsecured,
				no impairment
Extension (availment) of advances:				
SIPC**	1,123,075	1,123,075	60-day;	Unsecured
			noninterest-bearing	
SIPC***	2,916,098	(2,659,157)	60-day;	Unsecured,
			noninterest-bearing	no impairment
BLCI**	663,545	569,018	60-day;	Unsecured,
			noninterest-bearing	no impairment
(Forward)				





2019				
Category	Transaction	Outstanding Balance - Receivable (Payable)	Terms	Conditions
BLCI***	P45,811	(P115,501)	60-day; noninterest-bearing	Unsecured
SMPC**	16,155	16,155	60-day; noninterest-bearing	Unsecured, no impairment
SECI**	6,032	6,032	60-day; noninterest-bearing	Unsecured, no impairment
SLCI**	6,032	6,032	60-day; noninterest-bearing	Unsecured, no impairment
CNPC**	19,550	141,752	60-day; noninterest-bearing	Unsecured, no impairment
Dividend income (see Note 11):				
SIPC	349,999,930	—	Due and demandable	Unsecured
BLCI	14,962,495	5,984,999	Due and demandable	Unsecured
SECI	5,599,999	—	Due and demandable	Unsecured
Associates				
Management services:				
MECO	123,643,736	—	60-day; noninterest-bearing	Unsecured
Extension (availment) of advances:				
KEPCO SPC**	—	719,579	Due and demandable	Unsecured, no impairment
Dividend income (see Note 10):				
KEPCO SPC	1,328,024,392	—	Due and demandable	Unsecured, no impairment
MECO	83,999,907	—	Due and demandable	Unsecured, no impairment
Affiliates (Companies Under Common Ownership)				
Lease of office space: ****				
SPEC	3,651,136	(1,217,045)	30-day; Noninterest-bearing;	Unsecured
SPDC	691,317	(230,439)	30-day; Noninterest-bearing; 3% annual escalation	Unsecured
Extension (availment) of advances:				
Bohol Water Utilities, Inc. (BWUI)**	3,429,499	123,972	60-day; noninterest-bearing	Unsecured, no impairment
SPDC**	87,655	251,980	60-day; noninterest-bearing	Unsecured
SPDC***	261,723	(108,038)	60-day; noninterest-bearing	Unsecured, no impairment
Salcon International, Inc. (SII)**	51,152	51,152	60-day; noninterest-bearing	Unsecured, no impairment
Salcon Philippines, Inc. (SPI)**	44,950	44,950	60-day; noninterest-bearing	Unsecured, no impairment
SIPC Water Resources, Inc. (SWRI)**	17,518	193,545	60-day; noninterest-bearing	Unsecured, no impairment
Western Panay Hydropower Corp. (WPHC)**	16,671	97,537	60-day; noninterest-bearing	Unsecured, no impairment
Pure and Pam, Inc. **	—	75,000	60-day; noninterest-bearing	Unsecured, no impairment
SPEC**	66,853	66,853	60-day; noninterest-bearing	Unsecured, no impairment
KV Holdings, Inc.**	3,932	3,932	60-day; noninterest-bearing	Unsecured, no impairment
Kepco Philippines Corp.***	—	(497,043)	60-day; noninterest-bearing	Unsecured, no impairment
Officers and employees*	5,500,047	6,698,945	60-day; non-interest bearing	Unsecured, no impairment

\* Under "Trade and other receivables"

\*\* Under "Due from related parties"

\*\*\* Under "Due to related parties"

\*\*\*\* Under "Lease liabilities"



2018				
Category	Transaction	Outstanding Balance - Receivable (Payable)	Terms	Conditions
Subsidiaries				
Management services:				
SIPC*	P410,714	P34,911	60-day; noninterest-bearing	Unsecured, no impairment
Extension (availment) of advances:				
SIPC**	351,360,827	351,360,827	60-day; noninterest-bearing	Unsecured
SIPC***	2,572,106	(2,462,677)	60-day; noninterest-bearing	Unsecured, no impairment
BLCI**	923,212	249,379	60-day; noninterest-bearing	Unsecured, no impairment
BLCI***	27,833	(69,690)	60-day; noninterest-bearing	Unsecured
SMPC**	18,148	18,148	60-day; noninterest-bearing	Unsecured, no impairment
SECI**	6,694	12,652	60-day; noninterest-bearing	Unsecured, no impairment
SLCI**	6,793	6,793	60-day; noninterest-bearing	Unsecured, no impairment
CNPC**	19,566	122,202	60-day; noninterest-bearing	Unsecured, no impairment
Dividend income (see Note 11):				
SIPC	349,999,930	-	Due and demandable	Unsecured
BLCI	15,959,996	-	Due and demandable	Unsecured
SECI	5,599,999	-	Due and demandable	Unsecured
SLCI	15,999,997	-	Due and demandable	Unsecured
Associates				
Management services:				
MECO	120,007,156	-	60-day; noninterest-bearing	Unsecured
Extension (availment) of advances:				
KSPC**	-	719,579	Due and demandable	Unsecured, no impairment
MECO**	1,950	1,950	60-day; Noninterest-bearing	Unsecured, no Impairment
Dividend income (see Note 10):				
KSPC	1,329,823,954	-	Due and demandable	Unsecured, no impairment
MECO	79,999,911	-	Due and demandable	Unsecured, no impairment
Affiliates (Companies Under Common Ownership)				
Lease of office space:				
SPEC****	3,319,206	(1,106,402)	30-day; Noninterest-bearing;	Unsecured
SPDC****	691,317	(230,439)	30-day; Noninterest- bearing; 3% annual escalation as agreed by the parties	Unsecured
Extension (availment) of advances:				
BWUI**	21,973,706	15,218,235	60-day; noninterest-bearing	Unsecured, no impairment
SPDC**	81,464	164,325	60-day; noninterest-bearing	Unsecured
SPDC***	268,304	(89,658)	60-day; noninterest-bearing	Unsecured, no impairment
SII**	47,673	98,621	60-day; noninterest-bearing	Unsecured, no impairment
SPI**	41,350	87,520	60-day; noninterest-bearing	Unsecured, no impairment
SWRI**	17,862	176,026	60-day; noninterest-bearing	Unsecured, no impairment

(Forward)



2018				
Category	Transaction	Outstanding Balance - Receivable (Payable)	Terms	Conditions
WPHC**	₱17,362	₱80,866	60-day; noninterest-bearing	Unsecured, no impairment
Pure and Pam, Inc. **	-	75,000	60-day; noninterest-bearing	Unsecured, no impairment
SPEC**	67,231	133,623	60-day; noninterest-bearing	Unsecured, no impairment
KV Holdings, Inc. **	4,923	4,923	60-day; noninterest-bearing	Unsecured, no impairment
Kepeco Philippines Corp. ***	-	(497,043)	60-day; noninterest-bearing	Unsecured, no impairment
Officers and employees*	2,429,188	4,853,571	60-day; non-interest bearing	Unsecured, no impairment

\* Under "Trade and other receivables"

\*\* Under "Due from related parties"

\*\*\* Under "Due to related parties"

\*\*\*\* Under "Trade and other payables"

These transactions with related parties are generally settled in cash.

#### Compensation and Benefits of Key Management Personnel

The Parent Company considers all senior officers as key management personnel. The compensation of key management personnel follows:

	2020	2019	2018
Short-term benefits	₱36,466,676	₱31,488,962	₱31,961,364
Post-employment benefits	324,926	289,670	309,811
	<b>₱36,791,602</b>	<b>₱31,778,632</b>	<b>₱32,271,175</b>

#### **6. Cash and Cash Equivalents**

	2020	2019
Cash on hand and in banks	₱748,267,291	₱1,209,500,353
Short-term investments	2,681,960,290	1,534,398,850
	<b>₱3,430,227,581</b>	<b>₱2,743,899,203</b>

Cash in banks earn interest at the respective bank deposit rates. Short-term investments are made for varying periods of up to three months or less, depending on the immediate cash requirements of the Parent Company, and earn interest at the prevailing short-term investment rates. Total interest income earned amounted to ₱47.4 million, ₱89.3 million and ₱41.2 million in 2020, 2019 and 2018, respectively.



## 7. Trade and Other Receivables

	2020	2019
Receivable from customers:		
National Grid Corporation of the Philippines (NGCP)	<b>₱40,216,112</b>	₱22,613,731
Independent Electricity Market Operator of the Philippines Inc. (IEMOP) (net of allowance for impairment of ₱3.7 million and ₱4.0 million in 2020 and 2019, respectively)	<b>6,996,873</b>	21,071,382
Advances to officers and employees	<b>8,092,171</b>	6,698,945
Receivable from SIPC (see Note 5)	<b>6,192,074</b>	6,192,074
Advances to an individual shareholder	<b>3,000,000</b>	3,000,000
Due from related parties (see Note 5)	<b>2,872,143</b>	3,490,565
Dividends receivable (see Note 5)	<b>—</b>	5,984,999
Others	<b>8,754,553</b>	6,551,501
	<b>₱76,123,926</b>	₱75,603,197

Receivable from customers arises from generation and sale of energy, and from provision of ancillary services. These receivables are noninterest-bearing and are generally on a term of 30–90 days.

Advances to officers and employees are noninterest-bearing and are subject to liquidation within 60 days.

Advances to a shareholder pertain to cash advances to a non-related party and is collectible upon demand.

Others mainly consist of nontrade receivables from third parties.

Allowance for impairment losses pertains to trade receivables as a result of performing collective impairment test at reporting date. These relate to debtors who are either in significant financial difficulties, have defaulted on payments or whose accounts are under dispute and legal proceedings.

The following table shows the movement in the allowance for impairment:

	2020	2019
At January 1	<b>₱3,991,469</b>	₱3,775,422
Provision (see Note 17)	<b>—</b>	216,047
Reversal of allowance	<b>(277,431)</b>	—
At December 31	<b>₱3,714,038</b>	₱3,991,469

## 8. Materials and Supplies

	2020	2019
On hand	<b>₱68,029,904</b>	₱55,260,112
In transit	<b>2,294,073</b>	2,768,500
	<b>₱70,323,977</b>	₱58,028,612





Materials and supplies, carried at cost, include fuel, lubricants, chemicals, spare parts, supplies and other consumables used in the operations, repairs and maintenance of property, plant and equipment.

The cost of materials and supplies used in the operations of NPPC recognized as part of "Others - net" amounted to ₱135.6 million in 2018 and nil in 2020 and 2019 (see Note 25) and "Cost of services" amounted to ₱114.0, ₱155.5 and ₱13.2 million in 2020, 2019 and 2018, respectively, in the parent company statements of comprehensive income (see Note 16).

#### 9. Prepayments and Other Current Assets

	2020	2019
Input VAT	₱5,123,537	₱28,295,503
Prepaid insurance	3,989,710	5,404,577
Prepaid rent	536,579	536,579
Deferred input tax	500,464	1,164,613
Others	3,615,431	3,158,953
	<b>₱13,765,721</b>	<b>₱38,560,225</b>

Others pertain mostly to advances and refundable deposits.

#### 10. Investments in Associates

The Parent Company's associates, corresponding equity ownership and acquisition cost follow:

	Principal Activity	% of Ownership	
KEPCO SPC	Power generation	40.0	₱2,472,464,616
MECO	Power distribution	40.0	380,000,752
			<b>₱2,852,465,368</b>

#### KEPCO SPC

Summarized financial information pertaining to KEPCO SPC as of and for the years ended December 31 follows:

	2020	2019
Statements of financial position:		
Current assets	₱3,330,256,923	₱3,353,388,423
Noncurrent assets	9,436,490,867	10,185,758,230
Current liabilities	770,666,454	832,206,435
Noncurrent liabilities	170,395,823	184,236,487
Equity	11,825,685,513	12,522,703,731

(Forward)



	2020	2019
Statements of comprehensive income:		
Revenue	<b>₱7,757,801,584</b>	₱8,342,240,486
Gross profit	<b>4,000,394,743</b>	3,261,222,071
Net income	<b>2,782,970,368</b>	2,851,004,285
Other comprehensive income (loss)	<b>(3,208,956)</b>	(7,298,321)
Total comprehensive income	<b>2,779,761,412</b>	2,843,705,964

KEPCO SPC declared and paid cash dividends to the Parent Company amounting to ₱1,357.0 million, ₱1,328.0 million and ₱1,329.8 million in 2020, 2019 and 2018, respectively (see Note 5).

#### MECO

Summarized financial information pertaining to MECO as of and for the years ended December 31 follows:

	2020	2019
Statements of financial position:		
Current assets	<b>₱2,662,925,520</b>	₱2,538,137,993
Noncurrent assets	<b>3,750,638,131</b>	3,793,357,353
Current liabilities	<b>893,738,932</b>	993,387,990
Noncurrent liabilities	<b>2,435,659,445</b>	2,522,682,101
Equity	<b>3,084,165,274</b>	2,815,425,255
Revaluation increment on property, plant and equipment, and others	<b>452,934,191</b>	467,786,406
Statements of comprehensive income:		
Revenue	<b>5,251,432,323</b>	6,651,213,663
Gross profit	<b>343,303,728</b>	442,284,044
Net income	<b>316,420,385</b>	441,331,201
Other comprehensive income (loss)	<b>5,954,400</b>	(332,628)
Total comprehensive income	<b>322,374,785</b>	440,998,573
Income after adjustment of depreciation on appraisal increase and others	<b>337,637,835</b>	467,669,998

MECO declared and paid cash dividends to the Parent Company amounting to ₱24.0 million, ₱84.0 million and ₱80.0 million in 2020, 2019 and 2018, respectively (see Note 5).

Based on management's assessment, there were no indicators of impairment. No impairment loss was recognized in 2020, 2019 and 2018.



## 11. Investments in Subsidiaries

Details of the Parent Company's investments in subsidiaries as of December 31, 2020 and 2019 are as follows:

	Principal Activity	% of Ownership		Total	Amount
		Direct	Indirect		
SIPC	Power generation	100.00%	—	100.00%	P274,999,995
BLCI	Power distribution	39.90%	13.76%	53.66%	45,653,125
SLCI	Holding company	40.00%	24.00%	64.00%	12,609,198
SECI	Holding company	40.00%	—	40.00%	7,565,518
CNPC	Power generation	100.00%	—	100.00%	249,995
SMPC	Power generation	40.00%	38.40%	78.40%	99,998
					<b>P341,177,829</b>

Cash dividends declared by the subsidiaries in the last three years are summarized as follows:

Declared By	Date of Declaration	Record Date	Amount	
			Gross (in millions)	Per Share
<b>2020</b>				
SIPC	December 2, 2020	December 16, 2020	P300.0	P12.0 (common)
BLCI	May 27, 2020	June 1, 2020	20.0	0.27
	November 4, 2020	November 15, 2020	37.5	0.50
SECI	October 2, 2020	October 15, 2020	18.9	1.00
SLCI	October 2, 2020	October 15, 2020	23.0	0.73
<b>2019</b>				
SIPC	November 25, 2019	December 10, 2019	P350.0	P14.0 (common)
BLCI	July 18, 2019	July 22, 2019	22.5	0.30
	November 20, 2019	November 30, 2019	15.0	0.20
SECI	October 4, 2019	October 7, 2019	14.0	0.74
<b>2018</b>				
SIPC	November 28, 2018	December 12, 2018	P350.0	P14.0 (common)
SLCI	November 28, 2018	December 20, 2018	40.0	1.27
BLCI	April 12, 2018	April 16, 2018	30.0	0.40
	December 10, 2018	December 14, 2018	10.0	0.13
SECI	November 28, 2018	December 20, 2018	14.0	0.74

Based on management's assessment, there were no indicators of impairment. No impairment loss was recognized in 2020, 2019 and 2018.

## 12. Property, Plant and Equipment

	2020						Total
	Buildings, Plant Machinery and Equipment	Motor Vehicles	Furniture and Office Equipment	Partitions and Air Conditioners	Construction in Progress	Right-of-use Assets (see Note 23)	
<b>Cost</b>							
At January 1	P477,948,149	P17,633,805	P11,502,066	P912,760	P—	P10,658,298	P518,655,078
Additions	4,287,989	3,559,732	521,365	271,875	643,082	—	9,284,043
Transfers	643,082	—	—	—	(643,082)	—	—
Retirement	—	(643,636)	—	—	—	(1,395,280)	(2,038,916)
At December 31	482,879,220	20,549,901	12,023,431	1,184,635	—	9,263,018	525,900,205
<b>Accumulated Depreciation</b>							
At January 1	41,070,648	13,570,707	9,870,330	806,771	—	3,840,904	69,159,360
Depreciation during the year (see Note 19)	34,031,455	1,685,922	565,306	99,492	—	3,729,722	40,111,897
Retirement	—	(643,636)	—	—	—	(1,395,280)	(2,038,916)
At December 31	75,102,103	14,612,993	10,435,636	906,263	—	6,175,346	107,232,341
<b>Net Book Value</b>	<b>P407,777,117</b>	<b>P5,936,908</b>	<b>P1,587,795</b>	<b>P278,372</b>	<b>P—</b>	<b>P3,087,672</b>	<b>P418,667,864</b>



	2019						
	Buildings, Plant Machinery and Equipment	Motor Vehicles	Furniture and Office Equipment	Partitions and Air Conditioners	Construction in Progress	Right-of-use Assets (see Note 23)	Total
<b>Cost</b>							
At January 1	405,032,768	20,632,838	10,376,475	6,485,329	14,888,880	1,395,279	458,811,569
Additions	13,051,242	1,467,813	746,464	—	47,982,046	9,263,019	72,510,584
Transfers	62,870,926	—	—	—	(62,870,926)	—	—
Retirement	(3,006,787)	(4,466,846)	379,127	(5,572,569)	—	—	(12,667,075)
At December 31	477,948,149	17,633,805	11,502,066	912,760	—	10,658,298	518,655,078
<b>Accumulated Depreciation</b>							
At January 1	13,093,004	17,116,565	9,446,697	6,233,908	—	—	45,890,174
Depreciation during the year (see Note 19)	30,304,372	1,162,140	483,413	145,432	—	3,840,904	35,936,261
Retirement	(2,326,728)	(4,707,998)	(59,780)	(5,572,569)	—	—	(12,667,075)
At December 31	41,070,648	13,570,707	9,870,330	806,771	—	3,840,904	69,159,360
Net Book Value	P436,877,501	P4,063,098	P1,631,736	P105,989	P—	6,817,394	P449,495,718

#### Acquisition and Rehabilitation of PB 104

On June 30, 2016, PSALM turned over the 32MW PB 104 to the Parent Company for rehabilitation. Units 1, 2 and 3 with total rated capacity of 24 MW started commercial operation on August 1, 2018 followed by Unit 4 (8MW) on June 11, 2019. Total acquisition and rehabilitation costs capitalized to "Property, plant and equipment" in the parent company statements of financial position amounted to ₱450.5 million as of December 31, 2020 and 2019.

The Parent Company has no purchase commitments as of December 31, 2020 and 2019.

### 13. Other Noncurrent Assets

	2020	2019
Project development costs	₱10,077,732	₱7,597,915
Investment in proprietary club shares	7,400,000	7,300,000
Software costs (net of accumulated amortization of ₱3.0 million and ₱2.4 million in 2020 and 2019, respectively) (see Note 19)	3,041,258	3,649,508
Advances to suppliers and contractors	2,737,052	11,208,890
	<b>₱23,256,042</b>	<b>₱29,756,313</b>

In 2020, 2019 and 2018, the Parent Company recognized "Unrealized valuation gain on financial asset at FVOCI" amounting to ₱0.1 million, ₱0.8 million and ₱1.5 million, respectively, in the parent company statements of comprehensive income for its investment in proprietary club shares.

In 2019, the Parent Company entered into an agreement with suppliers and contractors to purchase turbochargers for its PB 104. Total significant contract price amounted to ₱19.1 million. As of December 31, 2019, advances to suppliers and contractors amounted to ₱11.2 million. These pertain mainly to the down payments for the turbochargers which were already recouped and applied against billings of the suppliers and contractors in 2020.



The following table shows the movement in accumulated amortization of software costs:

	2020	2019
At January 1	₱2,433,005	₱1,824,754
Amortization (see Note 19)	608,251	608,251
At December 31	₱3,041,256	₱2,433,005

#### 14. Trade and Other Payables

	2020	2019
Trade	₱35,201,717	₱43,874,171
Nontrade	30,861,948	22,983,554
Accrued expenses:		
Withholding taxes and other statutory liabilities	6,921,177	10,504,189
Terminal leave pay	5,979,755	5,979,755
Accrued rent	1,485,588	925,278
Others	2,293,526	5,978,512
Due to related parties (see Note 5)	2,426,387	3,379,738
	₱85,170,098	₱93,625,197

Trade payables pertain to purchases of goods and services. These are noninterest-bearing and are normally settled on 30-60 days terms.

Nontrade payables include accrual for deferred output tax of ₱21.9 million and ₱14.1 million as of December 31, 2020 and 2019, respectively, and various accounts with nontrade suppliers and contractors.

Terminal leave pay are for certain employees who were rehired following the termination of the ROMM Agreement on March 25, 2012.

#### 15. Equity

##### Capital Stock

There were no changes in the Parent Company's authorized, issued and outstanding common shares as of December 31, 2020 and 2019:

Issued shares	1,569,491,900
Treasury shares	(72,940,097)
Issued and outstanding shares	1,496,551,803

On various dates in 2002 and 2012, the Parent Company registered with SEC its 1,569,491,900 common shares that were offered to the public at an issue price of ₱1.80 per share. Gross proceeds from this issuance of new shares amounted to ₱2.8 billion. As of December 31, 2020, the Parent Company has 803 stockholders including 85 depository participants counted as one stockholder each.

As of December 31, 2020 and 2019, the Parent Company complied with the Minimum Public Ownership requirement of the PSE for listed entities.





### Dividends

Cash dividends declared by the Parent Company in the last three years are summarized as follows:

Date of Declaration	Record Date	Payment Date	Amount	
			Gross (in millions)	Per Share
<b>2020</b>				
May 7, 2020	May 22, 2020	May 29, 2020	P598.6	P0.40
December 2, 2020	December 21, 2020	December 28, 2020	598.6	0.40
<b>2019</b>				
November 25, 2019	December 10, 2019	December 17, 2019	1,047.6	0.70
April 4, 2019	April 12, 2019	April 30, 2019	598.6	0.40
<b>2018</b>				
November 28, 2018	December 12, 2018	December 19, 2018	598.6	0.40
May 28, 2018	June 11, 2018	June 27, 2018	598.6	0.40

On April 7, 2021, the BOD of the Parent Company approved the declaration of interim cash dividends equivalent to P0.40 per share, or for a total of P598.6 million, to all stockholders of record as of April 23, 2021, payable on or before April 30, 2021.

### Retained Earnings

Retained earnings are also restricted for dividend declaration to the extent of the acquisition price of the treasury shares amounting to P131.0 million as of December 31, 2020 and 2019.

### Appropriation

On November 28, 2018, the BOD of the Parent Company approved the following: (i) reversal of P850.0 million appropriation of retained earnings for the construction of a CFBC coal-fired thermal power plant with a capacity of at least 300 MW due to the adverse Supreme Court decision that led to the return of the Naga Power Plant Complex to PSALM pursuant to a Memorandum of Agreement and Certificate of Turnover executed between the Parent Company and PSALM on July 9, 2018 and July 13, 2018, respectively (see Note 25); (ii) reversal of P500.0 million appropriation of retained earnings for two run-of-river hydro-electric power plant projects in Palawan due to unsuccessful conclusion of final studies/negotiations; and (iii) appropriation of P1.5 billion out of the unappropriated retained earnings of the Parent Company for the acquisition of a 100% ownership interest in a power generation company and for 1Bohol Power Project that will serve the long-term power requirements of three distribution utilities in Bohol within the years 2024–2033.

In January 2019, the Parent Company lost in its bid to acquire the power generation company. Consequently, on April 4, 2019, the BOD of the Parent Company approved the reversal of a portion of its 2018 appropriation amounting to P1.0 billion.

On November 25, 2019, the BOD of the Parent Company approved the following: (i) appropriation of retained earnings amounting to P1.3 billion for the construction and operation of new generating power plant capacity to supply 39 MW full demand requirements in the mainland of Occidental Mindoro starting May 25, 2022, (ii) appropriation of retained earnings amounting to P1.0 billion to invest in SPC Island Power Corporation for the 44.2 MW expansion of Bohol Diesel Power Plant in the years 2020 - 2021, and (iii) confirmation of the 2018 appropriation of retained earnings amounting to P500 million for 1Bohol Power Project that will serve the long-term power requirements of three distribution utilities in Bohol starting December 26, 2023.



On December 2, 2020, the BOD of the Parent Company approved the following: (i) reversal of its 2019 appropriation amounting to ₱1.0 billion as a consequence of change in market conditions. The appropriation was intended for investment in SPC Island Power Corporation for the 44.2 MW expansion of Bohol Diesel Power Plant; (ii) confirmation of the appropriation of retained earnings amounting to ₱1.3 billion for the construction and operation of new generating power plant capacity to supply 39 MW full demand requirements in the mainland of Occidental Mindoro starting May 25, 2022, and (ii) confirmation of the appropriation of retained earnings amounting to ₱500.0 million for 1 Bohol Power Project that will serve the long-term power requirements of three distribution utilities in Bohol starting December 26, 2023.

#### Earnings per Share

The following presents information necessary to calculate earnings per share of the Parent Company:

	2020	2019	2018
Net income	₱1,847,397,599	₱1,833,928,321	₱1,951,016,504
Weighted average number of common shares issued and outstanding	1,496,551,803	1,496,551,803	1,496,551,803
Basic/Diluted earnings per share	₱1.23	₱1.23	₱1.30

There are no potentially dilutive common stocks issued as of December 31, 2020, 2019 and 2018.

#### Capital Management

The Parent Company considers the following as its core economic capital and is not subject to any externally imposed capital requirements. As of December 31, 2020 and 2019, the Parent Company's core capital amounted as follows:

	2020	2019
Capital stock	₱1,569,491,900	₱1,569,491,900
Additional paid-in capital	86,810,752	86,810,752
Retained earnings	5,589,122,453	4,938,966,296
Treasury stock	(131,008,174)	(131,008,174)
	₱7,114,416,931	₱6,464,260,774

### 16. Plant Operations

	2020	2019	2018
Fuel, lubricants and chemicals (see Note 8)	₱101,899,226	₱141,732,619	₱10,413,648
Depreciation (see Note 19)	34,031,455	30,304,372	10,766,277
Personnel costs (see Note 18)	18,971,221	16,809,283	7,109,384
Spares, materials and supplies (see Note 8)	12,100,838	13,812,369	2,774,851
Repairs and maintenance	3,623,921	4,898,701	3,035,718
Purchased power	2,300,375	2,916,203	806,698
Taxes and licenses	20,620	215,362	61,382
Others (see Note 25)	6,671,699	6,711,389	1,768,705
	₱179,619,355	₱217,400,298	₱36,736,663

In 2018, the incidental income from operating and preserving the NPPC amounting to ₱76.1 million, net of directly related costs and expenses, were recognized as "Other income" in the parent company statement of comprehensive income (see Notes 4 and 25).



## 17. General and Administrative Expenses

	2020	2019	2018
Personnel costs (see Note 18)	P41,547,310	P37,035,069	P33,266,113
Shared expenses	14,962,804	13,900,005	13,257,495
Business development	14,630,833	44,453,037	21,893,463
Professional fees	12,832,395	10,799,596	10,552,117
Directors' fees	12,336,758	11,471,937	11,360,826
Insurance	8,288,055	7,850,796	8,075,139
Depreciation and amortization (see Note 19)	6,688,693	6,240,140	2,254,126
Corporate social responsibility	3,895,715	2,359,771	8,762,866
Repairs and maintenance	3,437,231	4,374,999	6,528,864
Rentals (see Notes 5, 23 and 25)	3,377,925	1,649,624	6,163,371
Communications	2,480,788	2,494,314	3,044,938
Transportation and travel	2,221,577	5,288,144	9,587,449
Association dues	1,766,897	1,824,828	1,874,423
Taxes and licenses	1,160,894	32,674,501	326,665
Office supplies	917,562	1,178,912	1,161,853
Power and water	622,292	774,773	1,224,342
Entertainment, amusement and recreation	199,222	1,054,384	2,271,945
Freight and handling	110,877	167,737	160,611
Provisions (see Notes 7 and 12)	—	216,047	16,642,302
Others	4,519,915	4,490,638	5,415,019
	<b>P135,997,743</b>	<b>P190,299,252</b>	<b>P163,823,927</b>

Taxes and licenses in 2019 include settlement of previous years' assessments amounting to P32.4 million including interest and penalties of P11.1 million.

## 18. Personnel Costs

	2020	2019	2018
Salaries and wages	P41,423,652	P37,166,999	P27,295,465
Pension expense (see Note 21)	2,636,752	1,453,199	1,595,819
Other employee benefits	16,458,127	15,224,154	11,484,213
	<b>P60,518,531</b>	<b>P53,844,352</b>	<b>P40,375,497</b>

## 19. Depreciation and Amortization

	2020	2019	2018
Depreciation of property, plant and equipment			
Plant operations (see Note 16)	P34,031,455	P30,304,372	P10,766,277
General and administrative (see Note 17)	6,080,442	5,631,889	1,645,875
	<b>40,111,897</b>	<b>35,936,261</b>	<b>12,412,152</b>
Amortization of land lease rental (see Notes 23 and 25):			
General and administrative (see Note 17)	—	—	121,293
Amortization of software costs:			
General and administrative (see Note 17)	608,251	608,251	608,251
	<b>P40,720,148</b>	<b>P36,544,512</b>	<b>P13,141,696</b>



## 20. Income Tax

	2020	2019	2018
Current	<b>P48,877,047</b>	P35,474,763	P57,226,550
Deferred	—	—	6,791,130
	<b>P48,877,047</b>	<b>P35,474,763</b>	<b>P64,017,680</b>

The reconciliation between the amounts of provision for income tax computed at the statutory tax rate to provision for income tax in the parent company statements of comprehensive income for the years ended December 31, 2020, 2019 and 2018 follows:

	2020	2019	2018
Income before income tax	<b>P1,896,274,646</b>	P1,869,403,084	P2,015,034,184
Provision for income tax computed at 30%	<b>P568,882,394</b>	P560,820,925	P604,510,255
Adjustments to income tax resulting from:			
Nontaxable dividend income	<b>(516,218,874)</b>	(534,776,017)	(539,215,136)
Interest income already subjected to final tax	<b>(14,208,897)</b>	(26,804,230)	(12,357,353)
Impact of OSD	<b>8,266,868</b>	35,592,788	12,363,564
Others	<b>2,155,556</b>	641,297	(1,283,650)
	<b>P48,877,047</b>	<b>P35,474,763</b>	<b>P64,017,680</b>

As of December 31, 2020 and 2019, the Company has unrecognized deferred tax asset related to its allowance for impairment of receivables amounting to P1.1 million and P1.2 million, respectively.

On July 7, 2008, R.A. 9504, which amended the provisions of the 1997 Tax Code, became effective. It includes provisions relating to the availment of the OSD. Corporations, except for nonresident foreign corporations, may now elect to claim standard deduction in an amount not exceeding 40% of their gross income. A corporation must signify in its returns its intention to avail of the OSD. If no indication is made, it shall be considered as having availed of the itemized deductions. The availment of the OSD shall be irrevocable for the taxable year for which the return is made. On November 26, 2008, the BIR issued Revenue Regulations 16-2008 for the implementing guidelines of the law.

In 2020, 2019 and 2018, the Parent Company availed of the OSD in the computation of its taxable income.

### Corporate Recovery and Tax Incentives for Enterprises (CREATE) Act

President Rodrigo Duterte signed into law on March 26, 2021 the CREATE Act to attract more investments and maintain fiscal prudence and stability in the Philippines. R.A. No. 11534 or the CREATE Act introduces reforms to the corporate income tax and incentives systems. It takes effect 15 days after its complete publication in the Official Gazette or in a newspaper of general circulation or April 11, 2021.

The following are the key changes to the Philippine tax law pursuant to the CREATE Act which have an impact on the Group:

- Effective July 1, 2020, regular corporate income tax (RCIT) rate is reduced from 30% to 25% for domestic and resident foreign corporations. For domestic corporations with net taxable income not exceeding P5 million and with total assets not exceeding P100 million (excluding



land on which the business entity's office, plant and equipment are situated) during the taxable year, the RCIT rate is reduced to 20%.

- Minimum corporate income tax (MCIT) rate reduced from 2% to 1% of gross income effective July 1, 2020 to June 30, 2023.
- Imposition of improperly accumulated earnings tax (IAET) is repealed.

As clarified by the Philippine Financial Reporting Standards Council in its Philippine Interpretations Committee Q&A No. 2020-07, the CREATE Act was not considered substantively enacted as of December 31, 2020 even though some of the provisions have retroactive effect to July 1, 2020. The passage of the CREATE Act into law on March 26, 2021 is considered as a non-adjusting subsequent event. Accordingly, current and deferred taxes as of and for the year ended December 31, 2020 continued to be computed and measured using the applicable income tax rates as of December 31, 2020 (i.e., 30% RCIT / 2% MCIT) for financial reporting purposes.

Applying the provisions of the CREATE Act, the Parent Company would have been subjected to lower regular corporate income tax rate of 25% effective July 1, 2020. This will result in lower provision for current income tax for the year ended December 31, 2020 and lower income tax payable as of December 31, 2020 by ₱4.1 million. The lower provision for current income tax and income tax payable will be reflected in the Parent Company's 2020 annual income tax return but will only be recognized for financial reporting purposes in its 2021 financial statements.

## 21. Pension Plan

Under the existing regulatory framework, Republic Act No. 7641, *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 employees' 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.

The Parent Company has a funded, noncontributory defined benefit plan covering all regular and permanent employees. Benefits are based on the employees' final plan salary and years of service. The plan meets the minimum retirement benefit specified under the law.

The following tables summarize the components of pension expense recognized in the parent company statements of comprehensive income and amounts recognized in the parent company statements of financial position.

The components of pension expense recognized under "General and administrative" in the parent company statements of comprehensive income follow (see Note 18):

	2020	2019
Current service cost	₱2,584,013	₱1,533,451
Net interest cost on benefit obligation	52,739	(80,252)
	₱2,636,752	₱1,453,199

Remeasurement gain recognized under "Other comprehensive income" in the parent company statements of comprehensive income amounted to ₱2.0 million, and ₱4.2 million in 2020 and 2018 respectively while remeasurement loss recognized in 2019 amounted ₱2.3 million.





Changes in the present value of the defined benefit obligation follow:

	2020	2019
At January 1	<b>₱25,098,333</b>	₱17,395,127
Current service cost	<b>2,584,013</b>	1,533,451
Interest cost	<b>1,229,818</b>	991,522
Benefits paid	–	(134,772)
Remeasurement loss due to:		
Experience adjustments	–	4,468,498
Changes in demographic assumptions	–	32,735
Changes in financial assumptions	–	811,772
At December 31	<b>₱28,912,164</b>	₱25,098,333

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

	2020	2019
At January 1	<b>₱24,022,023</b>	₱18,803,054
Gains on return on plan assets	<b>1,967,989</b>	2,975,296
Interest income included in net interest cost	<b>1,177,079</b>	1,071,774
Contributions to the retirement fund	<b>408,273</b>	1,306,671
Benefits paid	–	(134,772)
At December 31	<b>₱27,575,364</b>	₱24,022,023

Changes in the amounts recognized in the parent company statements of financial position for pension liability (asset) follows:

	2020	2019
At January 1	<b>₱1,076,310</b>	(₱1,407,927)
Pension expense for the year	<b>2,636,752</b>	1,453,199
Remeasurement loss (gain) on employee benefits	<b>(1,967,989)</b>	2,337,709
Contribution to the retirement fund	<b>(408,273)</b>	(1,306,671)
At December 31	<b>₱1,336,800</b>	₱1,076,310

The fair value of plan assets by each class as at December 31 follows:

	2020	2019
Cash and cash equivalents	<b>₱9,304,161</b>	₱2,615,810
Investments in government securities	<b>17,163,905</b>	18,975,270
Accrued interest income	<b>140,195</b>	179,926
Investment in bonds	–	1,500,000
Investment in listed preferred shares	–	761,250
Others	<b>981,880</b>	11,310
Total assets	<b>27,590,141</b>	24,043,566
Total liabilities	<b>14,777</b>	21,543
Fair value of plan assets	<b>₱27,575,364</b>	₱24,022,023

All equity instruments held have quoted prices in active market. The remaining plan assets do not have quoted market prices in active market.



The Parent Company expects to contribute to the retirement fund in 2020.

The principal assumptions used in determining pension obligation for the Parent Company's plan as of December 31 are shown below:

	2020	2019
Discount rate	4.90%	4.90%
Future salary increase rate	6.00%	6.00%

The sensitivity analysis below has been determined based on reasonably possible changes of each significant assumption on the present value of the defined benefit obligation of the most recent actuarial valuation report, as of the end of the reporting period, assuming all other assumptions were held constant:

	Increase (Decrease)	Present Value Change of Defined Benefit Obligation	
		2020	2019
Discount rate	+100 basis points	(P2,338,386)	(P1,005,088)
	-100 basis points	40,424	1,151,671
Salary increase rate	+100 basis points	134,538	1,237,000
	-100 basis points	(2,449,129)	(1,105,494)

The weighted average duration of the benefit payments is approximately 15.57 years as of December 31, 2020 and 2019. The expected benefit payment assumes that all actuarial assumptions will materialize.

Shown below is the maturity analysis of the undiscounted benefit payments as of December 31:

Plan Year	2020	2019
Less than one year	P1,437,559	P11,622,864
One year to less than five years	11,082,700	10,357,817
Five years to less than 10 years	8,836,257	8,294,873
10 years to less than 15 years	8,380,259	10,328,051
15 years to less than 20 years	9,954,711	9,320,279
20 years and above	30,409,922	31,800,387
	<b>P70,101,408</b>	<b>P81,724,271</b>

## 22. Financial Risk Management Objectives and Policies

The Parent Company's principal financial instruments comprise of cash and cash equivalents and trade and other payables. The Parent Company has various other financial assets and liabilities such as trade and other receivables, trade and other payables, due from/due to related parties.

The main risks arising from the Parent Company's financial instruments are liquidity risk and credit risk.



The Parent Company's senior management oversees the management of these risks. The Parent Company's senior management ensures that the Parent Company's financial risk-taking activities are governed by appropriate policies and procedures and that financial risks are identified, measured and managed in accordance with the Parent Company's policies and risk appetite.

The BOD reviews and approves policies for managing each of these risks and they are summarized below.

#### Liquidity Risk

Liquidity risk is the potential of not meeting obligations as they come due because of an inability to liquidate assets or obtain adequate funding. The Parent Company's objective is to maintain a balance between continuity of funding and flexibility. The Parent Company 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.

The tables below summarize the maturity profile of the Parent Company's financial assets and liabilities at December 31 based on contractual undiscounted payments:

	2020			
	Total	Current	1 to 30 Days	Over 30 Days
<b>Financial Assets</b>				
At amortized cost:				
Cash and cash equivalents	P3,430,227,581	P3,430,227,581	P-	P-
Trade and other receivables	76,123,926	28,844,091	16,000,993	31,278,842
	3,506,351,507	3,459,071,672	16,000,993	31,278,842
At FVOCI:				
Investment in proprietary club shares	7,400,000	-	-	7,400,000
	3,513,751,507	3,459,071,672	16,000,993	38,678,842
<b>Financial Liabilities</b>				
Other financial liabilities:				
Trade and other payables*				
Trade	35,201,717	31,645,217	1,536,121	2,020,379
Non-trade	6,644,240	1,635,982	-	5,008,258
Accrued expenses	9,005,512	2,087,527	186,627	6,731,358
	50,851,469	35,368,726	1,722,748	13,759,995
Due to related parties	2,426,387	28,558	-	2,397,829
Lease liabilities	4,539,815	-	-	4,539,815
	57,817,671	35,397,284	1,722,748	20,697,639
<b>Net Financial Assets</b>	<b>P3,455,933,836</b>	<b>P3,423,674,388</b>	<b>P14,278,245</b>	<b>P17,981,203</b>

\*Excluding Statutory Payables

	2019			
	Total	Current	1 to 30 Days	Over 30 Days
<b>Financial Assets</b>				
At amortized cost:				
Cash and cash equivalents	P2,743,899,203	P2,743,899,203	P-	P-
Trade and other receivables	75,603,197	45,684,258	4,224,296	25,694,643
	2,819,502,400	2,789,583,461	4,224,296	25,694,643
At FVOCI:				
Investment in proprietary club shares	7,300,000	-	-	7,300,000
	2,826,802,400	2,789,583,461	4,224,296	32,994,643
<b>Financial Liabilities</b>				
Other financial liabilities:				
Trade and other payables*				
Trade	43,874,171	36,554,818	292,137	7,027,216
Non-trade	8,930,439	563,967	181	8,366,291
Accrued expenses	12,247,966	5,221,938	70,671	6,955,357
	65,052,576	42,340,723	362,989	22,348,864
Due to related parties	3,379,738	1,756,473	119,622	1,503,643
Lease liabilities	8,985,273	-	-	8,985,273
	77,417,587	44,097,196	482,611	32,837,780
<b>Net Financial Assets</b>	<b>P2,749,384,813</b>	<b>P2,745,486,265</b>	<b>P3,741,685</b>	<b>P156,863</b>



### Credit Risk

Credit risk refers to the risk that the counterparty will default on its contractual obligations resulting to a financial loss.

The Parent Company trades only with recognized, creditworthy third parties. It is the Parent Company's policy that all customers who wish to trade on credit terms are subject to credit procedures. In addition, receivable balances are monitored on an ongoing basis with the result that exposure to bad debts is not significant

With respect to the Parent Company's credit risk arising from the financial assets which comprise cash and cash equivalents, trade and other receivables and due from related parties, the Parent Company's exposure to credit risk arises from default of the counterparty.

The Parent Company's credit risk from cash and cash equivalents is mitigated by the Philippine Deposit Insurance Corporation's (PDIC) insurance coverage on the cash in bank.

The Parent Company's maximum exposure equals to the carrying amount of its financial assets, excluding cash on hand, and is offset by the PDIC insurance coverage. The offset relates to balances where there is a legally enforceable right of offset in the event of counterparty default and where, as a result, there is a net exposure for credit risk management purposes. However, as there is no intention to settle these balances on a net basis under normal circumstances, they do not qualify for net presentation for accounting purposes.

2020			
	Maximum exposure	Offset	Exposure to credit risk
<b>At Amortized Cost</b>			
Cash and cash equivalents (excluding cash on hand)	₱3,429,942,075	(₱3,500,000)	₱3,426,442,075
Trade and other receivables	76,123,926	–	76,123,926
	<b>₱3,506,066,001</b>	<b>(₱3,500,000)</b>	<b>₱3,502,566,001</b>
2019			
	Maximum exposure	Offset	Exposure to credit risk
<b>At Amortized Cost</b>			
Cash and cash equivalents (excluding cash on hand)	₱2,743,609,969	(₱3,500,000)	₱2,740,109,969
Trade and other receivables	75,603,197	–	75,603,197
	<b>₱2,819,213,166</b>	<b>(₱3,500,000)</b>	<b>₱2,815,713,166</b>

As of December 31, 2020 and 2019, the Parent Company's significant concentration of credit risk pertains to its trade and other receivables amounting to ₱73.3 million and ₱72.1 million, respectively, and impaired financial assets, determined based on probability of collection, have been adequately covered with allowance.

The following are the details of the Parent Company's assessment of credit quality and the related ECLs as at December 31, 2020 and 2019:



### General Approach

- *Cash and cash equivalents* - As of December 31, 2020 and 2019, the ECL relating to the cash and cash equivalents of the Parent Company is minimal as these are deposited in reputable banks which have good bank standing, and is considered to have low credit risk.
- *Due from related parties*- As of December 31, 2020 and 2019, there were no individually impaired accounts. No ECL is recognized for these receivables since there were no history of default payments. This assessment is undertaken each financial year through examining the financial position of the parties and the markets in which the parties operate.

### Simplified Approach

- *Trade and Other Receivables* - The Parent Company applied the simplified approach under PFRS 9, using a 'provision matrix'. As of December 31, 2020 and 2019 the allowance for impairment losses as a result from performing collective and specific impairment test amounted to P3.7 million and P4.0 million, respectively. Management evaluated that the Parent Company's trade receivables are of high grade and of good credit quality.

2020					
	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Lifetime ECL Simplified Approach	Total
Gross carrying amount	P-	P-	P3,991,469	P72,974,352	P76,965,821
Loss allowance	-	-	(3,991,469)	277,431	(3,714,038)
Carrying amount	P-	P-	P-	P73,251,783	P73,251,783

2019					
	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Lifetime ECL Simplified Approach	Total
Gross carrying amount	P-	P-	P3,700,000	P72,404,101	P76,104,101
Loss allowance	-	-	(3,700,000)	(291,469)	(3,991,469)
Carrying amount	P-	P-	P-	P72,112,632	P72,112,632

The Parent Company grades its financial assets as follows:

- *Cash and Cash Equivalents*. These are assessed as high grade since these are deposited in reputable banks which have good bank standing, thus credit risk is minimal.
- *Receivable from Customers*. These are assessed as high grade since these receivables arose from the contract provisions of the ROMM Agreement, (OMSC), Ancillary Services Procurement Agreements (ASPA), Power Supply Contracts (PSCs), and/or collectible from government institution.
- *Due from Related Parties under "Trade and Other Receivables"*. These are assessed as standard, although recoverability of these receivables is certain, as these are given secondary priority as to settlement by the related parties compared to third party obligations.

