

SPC POWER CORPORATION

NOTES TO PARENT COMPANY FINANCIAL STATEMENTS

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) (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.

The registered office address of the Parent Company is 7th 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 May 7, 2020.



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 7th 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, 2019. Unless otherwise indicated, the adoption did not have any significant impact on the financial statements of the Parent Company.

▪ PFRS 16, *Leases*

PFRS 16 was issued in January 2016 and it replaces PAS 17, *Leases*, IFRIC 4, *Determining Whether An Arrangement Contains A Lease*, SIC-15, *Operating Leases-Incentives* and SIC-27, *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*. PFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for all leases under a single on-balance sheet model similar to the accounting for finance leases under PAS 17, *Leases*.

Lessor accounting under PFRS 16 is substantially unchanged from PAS 17. Lessors will continue to classify all leases using the same classification principle as in PAS 17 and distinguish between two types of leases: operating and finance leases. Therefore, PFRS 16 does not have an impact for leases where the Parent Company is the lessor.

The Parent Company adopted PFRS 16 using the modified retrospective method of adoption with the date of initial application of January 1, 2019. Under this method, the standard is applied retrospectively with the cumulative effect of initially applying the standard recognized at the date of initial application without restating comparative information. The Parent Company has elected to apply PFRS 16 transition relief to contracts that were previously identified as leases applying PAS 17. The Parent Company will therefore not apply PFRS 16 to contracts that were not previously identified as containing a lease applying PAS 17.

The Parent Company has elected to use the recognition exemption under PFRS 16 on lease of contracts for which the lease terms end within 12 months from the date of initial application or short-term leases. Lease payments on short-term leases are recognized as expense on a straight-line basis over the lease term.



The effects of adoption on the statement of financial position as at January 1, 2019 are as follows:

	Increase (decrease)
Property, plant and equipment (see Note 23)	₱1,395,279
Prepayments and other current assets	(121,293)
Other noncurrent assets	(10,107)
Total Assets	₱1,263,879
Lease liabilities (see Note 23)	₱1,263,879

Based on the above, as at January 1, 2019:

- Property, plant and equipment were recognized amounting to ₱1.4 million representing the amount of right-of-use assets set up on transition date.
- Prepayments under “Prepayments and other current assets” and “Other noncurrent assets” of ₱0.1 million and ₱10,107, respectively, related to prepaid rental for previous operating leases under PAS 17 were derecognized.
- Lease liabilities of ₱1.3 million were recognized.

Prior to adoption of PFRS 16, the Parent Company classified each of its leases (as lessee) at the inception date as either a finance lease or an operating lease. A lease was classified as a finance lease if it transferred substantially all of the risks and rewards incidental to ownership of the leased asset to the Parent Company; otherwise it was classified as an operating lease. Finance leases were capitalized at the commencement of the lease at the inception date fair value of the leased property or, if lower, at the present value of the minimum lease payments. Lease payments were apportioned between interest (recognized as finance costs) and reduction of the lease liability. In an operating lease, the leased property was not capitalized and the lease payments were recognized as rent expense in the statements of income on a straight-line basis over the lease term. Any prepaid rent was recognized under “Prepayment and other current assets” and “Other noncurrent assets” if realizable within one year and more than one year, respectively.

Upon adoption of PFRS 16, the Parent Company applied a single recognition and measurement approach for all leases, except for short-term leases and low-value assets. The standard provides specific transition requirements and practical expedients, which have been applied by the Parent Company.

Leases previously accounted for as operating leases. The Parent Company recognized right-of-use assets and lease liabilities for those leases previously classified as operating leases, except for short-term leases. The right-of-use assets for most leases were recognized based on the carrying amount as if the standard had always been applied, apart from the use of incremental borrowing rate (IBR) at the date of initial application. In some leases, the right-of-use assets were recognized based on the amount equal to the lease liabilities, adjusted for any related prepaid and accrued lease payments previously recognized. Lease liabilities were recognized based on the present value of the remaining lease payments, discounted using the IBR at the date of initial application.



The Parent Company also applied the following practical expedients provided by the standard:

- Apply the short-term leases exemptions to leases with lease term that ends within 12 months of the date of initial application (short-term leases).
- Exclusion of initial direct costs from the measurement of the right-of-use asset at the date of initial application.

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

Operating lease commitments as at December 31, 2018	₱1,948,780
Weighted average IBR as at January 1, 2019	7.0 %
Discounted operating lease commitments at January 1, 2019	₱2,913,503
Less commitments relating to short-term leases	1,649,624
Lease liabilities as at January 1, 2019	₱1,263,879

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

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

- Whether an entity considers uncertain tax treatments separately
- The assumptions an entity makes about the examination of tax treatments by taxation authorities
- How an entity determines taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates
- How an entity considers changes in facts and circumstances

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

Upon adoption of the Interpretation, the Parent Company has assessed whether it has any uncertain tax position. The Parent Company applies significant judgement in identifying uncertainties over its income tax treatments. The Parent Company determined, based on its assessment, that it is probable that its income tax treatments will be accepted by the taxation authorities. Accordingly, the interpretation does not have an impact on the financial statements of the Parent Company.



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

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

This amendment does not have an impact on the financial statements of the Parent Company.

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

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

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

The amendments also clarify that an entity first determines any past service cost, or a gain or loss on settlement, without considering the effect of the asset ceiling. This amount is recognized in profit or loss. An entity then determines the effect of the asset ceiling after the plan amendment, curtailment or settlement. Any change in that effect, excluding amounts included in the net interest, is recognized in other comprehensive income.

Since the Parent Company's current practice is in line with these amendments, these do not have any effect on its financial statements.

- Amendments to PAS 28, *Long-term Interests in Associates and Joint Ventures*

The amendments clarify that an entity applies PFRS 9 to long-term interests in an associate or joint venture to which the equity method is not applied but that, in substance, form part of the net investment in the associate or joint venture (long-term interests). This clarification is relevant because it implies that the expected credit loss (ECL) model in PFRS 9 applies to such long-term interests. The amendments also clarified that, in applying PFRS 9, an entity does not take account of any losses of the associate or joint venture, or any impairment losses on the net investment, recognized as adjustments to the net investment in the associate or joint venture that arise from applying PAS 28, *Investments in Associates and Joint Ventures*.

The amendments do not have significant impact to the financial statements of the Parent Company.



- *Annual Improvements to PFRSs 2015-2017 Cycle*

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

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

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

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

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

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

These amendments are not relevant to the Parent Company because dividends declared by the Parent Company do not give rise to tax obligations under the current tax laws.

- Amendments to PAS 23, *Income Tax Consequences of Borrowing Costs*, *Borrowing Costs Eligible for Capitalization*

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

An entity applies those amendments to borrowing costs incurred on or after the beginning of the annual reporting period in which the entity first applies those amendments.

The amendments do not have significant impact to the financial statements of the Parent Company.



New Standards and Interpretation Issued and Effective after December 31, 2019

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 will have a significant impact on its financial statements.

Effective January 1, 2020

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

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

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

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

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

Effective beginning on or after January 1, 2023

▪ PFRS 17, *Insurance Contracts*

PFRS 17 is a comprehensive new accounting standard for insurance contracts covering recognition and measurement, presentation and disclosure. Once effective, PFRS 17 will replace PFRS 4, *Insurance Contracts*. This new standard on insurance contracts applies to all types of insurance contracts (i.e., life, non-life, direct insurance and re-insurance), regardless of the type of entities that issue them, as well as to certain guarantees and financial instruments with discretionary participation features. A few scope exceptions will apply.

The overall objective of PFRS 17 is to provide an accounting model for insurance contracts that is more useful and consistent for insurers. In contrast to the requirements in PFRS 4, which are largely based on grandfathering previous local accounting policies, PFRS 17 provides a comprehensive model for insurance contracts, covering all relevant accounting aspects. The core of PFRS 17 is the general model, supplemented by:

- A specific adaptation for contracts with direct participation features (the variable fee approach)
- A simplified approach (the premium allocation approach) mainly for short-duration contracts



PFRS 17 is effective for reporting periods beginning on or after January 1, 2021, with comparative figures required. Early application is permitted.

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, *Business Combinations*. 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.

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 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 bad debts" in the parent company statements of comprehensive income.

As at December 31, 2019, the Parent Company has financial assets at amortized cost consisting of cash and cash equivalents, trade and other receivables and due from related parties (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, 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, 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 fair value through profit or loss;
- 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 and due to related parties (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.

Noncurrent Assets Held for Sale

The Parent Company classifies noncurrent assets and disposal groups as held for sale if their carrying amounts will be recovered principally through a sale transaction rather than through continuing use. Noncurrent assets and disposal groups classified as held for sale are measured at the lower of their carrying amount and fair value less costs to sell. Costs to sell are the incremental costs directly attributable to the disposal of an asset (disposal group), excluding finance costs and income tax expense, if any. Liabilities directly associated with noncurrent asset held for sale are classified and presented separately.

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

Property, plant and equipment and intangible assets are not depreciated or amortized once classified as held for sale.



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.

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, whichever is shorter, as follows:

Category	No. of Years
Buildings, plant machinery and equipment	2-15
Motor vehicles	2-12
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.

Effective January 1, 2019, it is the Parent Company's policy to classify right-of-use assets as part of property and equipment. Prior to that date, all of the Parent Company's leases are accounted for as operating leases in accordance with PAS 17, hence, not recorded on the statement of financial position. 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.

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.

Revenue Recognition

Prior to the adoption of PFRS 15, revenue is recognized to the extent that it is probable that the economic benefits associated with the transaction will flow to the Parent Company and the amount of revenue can be reliably measured under PAS 18. Revenue is measured at the fair value of the consideration received, excluding discounts, rebates, sales taxes or duty.

Upon adoption of PFRS 15 effective January 1, 2018, revenue from contracts with customers is recognized when control of the goods or services are transferred to the customer at an amount that reflects the consideration to which the 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 received 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).

Under PAS 18, revenue from power generation is recognized in the period actual capacity is generated.

Under PFRS 15, 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. Under PFRS 15, the variable consideration is estimated at contract inception and constrained until the associated uncertainty is subsequently resolved. The application of constraint on variable consideration resulted in the same revenue recognition under PAS 18.

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 or satisfied under PAS 18 and PFRS 15.

Cost and Expense Recognition

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

Borrowing Costs

Borrowing costs are capitalized if they are directly attributable to the acquisition or construction of a qualifying asset, specifically major capital projects; otherwise they are recognized as an expense.

Capitalization of borrowing costs commences when the activities to prepare the asset are in progress and expenditures and borrowing costs are being incurred. Borrowing costs are capitalized until the assets are substantially ready for their intended use. If the carrying amount of the asset exceeds its recoverable amount, an impairment loss is recorded.

Leases (prior to adoption of PFRS 16)

The determination of whether an arrangement is, or contains a lease, is based on the substance of the arrangement at the inception date and requires an assessment of whether the fulfilment of the arrangement is dependent on the use of a specific asset or assets and the arrangement conveys a right to use the asset. A reassessment is made after inception of the lease only if one of the following applies:

- a. there is a change in contractual terms, other than a renewal or extension of the arrangement;
- b. a renewal option is exercised or extension granted, unless that term of the renewal or extension was initially included in the lease term;
- c. there is a change in the determination of whether fulfilment is dependent on a specific asset; or
- d. there is a substantial change to the asset.

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



Leases where the lessor retains substantially all the risks and benefits of ownership of the assets are classified as operating leases. Operating lease payments on non-cancellable leases are directly charged against current operations on a straight-line basis over the lease term. Operating lease payments on cancellable leases are directly charged against current operations based on the terms of the lease.

Leases (upon adoption of PFRS 16)

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 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.

Deferred income tax liabilities are recognized for all taxable temporary differences, except:

- where the deferred income tax liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of taxable temporary differences associated with investments in subsidiaries and associates, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.



Deferred income tax assets are recognized for all deductible temporary differences to the extent that it is probable that taxable profit will be available against which the deductible temporary differences can be utilized except:

- where the deferred income tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and,
- in respect of deductible temporary differences associated with investments in subsidiaries and associates. Deferred income tax assets are recognized only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilized.

The carrying amount of deferred income tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable 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.

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, 2019 and 2018. 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.



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 under PFRS 15 (effective January 1, 2018) 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 Classification of Noncurrent Asset Held for Sale. On May 28, 2018, the BOD announced its decision to sell the LBGT and was consequently classified as a disposal group held for sale. As of December 31, 2018, the Parent Company is actively searching for potential buyers of the disposal group. The Parent Company considered the disposal group to meet the criteria to be classified as held for sale as of December 31, 2018 for the following reasons:

- The disposal group is available for immediate sale and can be sold to the buyer in its current condition.
- The actions to complete the sale were initiated and expected to be completed within one year from the date of initial classification.
- There is an active plan to locate potential buyers.

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 and Due from Related Parties 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 and due from related parties will increase the Parent Company's recorded expenses and decrease current assets. As of December 31, 2019 and 2018, allowance for expected credit losses amounted to ₱4.0 million and ₱3.8 million, respectively (see Notes 5 and 7). These receivables, net of allowance for expected credit losses, amounted to ₱75.6 million and ₱411.3 million as of December 31, 2019 and 2018, 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, 2019 and 2018 (see Note 8). The carrying value of the materials and supplies amounted to ₱58.0 million and ₱56.5 million as of December 31, 2019 and 2018, 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 ₱35.9 million, ₱12.4 million and ₱1.2 million in 2019, 2018 and 2017, respectively (see Note 19). As of December 31, 2019 and 2018, the aggregate net book values of property, plant and equipment subjected to depreciation amounted to ₱449.5 million and ₱396.6 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 2019 and 2017 (see Notes 12 and 17). As of December 31, 2019 and 2018, the aggregate net book values of property, plant and equipment amounted to ₱449.5 million and ₱411.5 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, 2019 and 2018 amounted to ₱2,852.5 million (see Note 10). The carrying amounts of investments in subsidiaries as of December 31, 2019 and 2018 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 2019, 2018 and 2017.

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, 2019 and 2018, (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, 2019 and 2018 amounted to ₱2,826.8 million and ₱2,619.2 million, respectively. Fair value of financial liabilities as of December 31, 2019 and 2018 amounted to ₱77.4 million and ₱46.6 million, respectively.

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.

On November 25, 2019, the BOD approved and adopted its revised policy on material related party transactions 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 SPC Island Power Corporation (SIPC) where management fee earned by the Parent Company amounted to ₱0.4 million in 2019, 2018 and 2017 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 ₱1.1 million and ₱351.4 million as of December 31, 2019 and 2018, respectively.
- Extension of noninterest-bearing advances to Bohol Light Company, Inc. (BLCI) for working capital requirements. Outstanding advances amounted to ₱0.6 million and ₱0.2 million as of December 31, 2019 and 2018, respectively.
- 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 ₱364.6 million, ₱387.6 million and ₱726.4 million in 2019, 2018 and 2017, respectively (see Note 11).
- Rendering of management and other services to Mactan Electric Company, Inc. (MECO), an associate, amounting to ₱123.6 million, ₱120.0 million and ₱100.0 million in 2019, 2018 and 2017, respectively, 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, 2019 and 2018.
- Cash dividends received from associates (KEPCO SPC and MECO) amounted to ₱1,412.0 million, ₱1,409.8 million and ₱1,028.3 million in 2019, 2018 and 2017, 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 to 3 years amounted to ₱4.3 million, ₱4.0 million and ₱3.9 million in 2019, 2018 and 2017, respectively. 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:

2019				
Category	Transaction	Outstanding Balance - Receivable (Payable)	Terms	Conditions
Subsidiaries				
Management services:				
SIPC*	P410,714	P-	60-day; noninterest-bearing	Unsecured, no impairment
Sale of LBGT (see Note 7)*	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; noninterest-bearing	Unsecured
SIPC***	2,916,098	(2,659,157)	60-day; noninterest-bearing	Unsecured, no impairment
BLCI**	663,545	569,018	60-day; noninterest-bearing	Unsecured, no impairment
BLCI***	45,811	(115,501)	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

(Forward)



2019				
Category	Transaction	Outstanding Balance - Receivable (Payable)	Terms	Conditions
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
Kepeco 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*	₱410,714	₱34,911	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

(Forward)



2019				
Category	Transaction	Outstanding Balance - Receivable (Payable)	Terms	Conditions
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
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
Kepco 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"

2017				
Category	Amount/Volume	Outstanding Balance - Receivable (Payable)	Terms	Conditions
Subsidiaries				
Management services:				
SIPC*	₱410,714	₱-	60-day; noninterest-bearing	Unsecured, no impairment
Extension (availment) of advances:				
SIPC***	1,837,300	(1,367,089)	60-day; noninterest-bearing	Unsecured
SIPC**	1,594,228	607,769	60-day; noninterest-bearing	Unsecured, no impairment
BLCI**	208,425	116,950	60-day; noninterest-bearing	Unsecured, no impairment
BLCI***	41,577	(41,857)	60-day; noninterest-bearing	Unsecured
SMPC**	98,452	98,452	60-day; noninterest-bearing	Unsecured, no impairment
SECI**	5,958	5,958	60-day; noninterest-bearing	Unsecured, no impairment
SLCI**	5,599	5,599	60-day; noninterest-bearing	Unsecured, no impairment
CNPC**	20,270	102,636	60-day; noninterest-bearing	Unsecured, no impairment

(Forward)



2017

Category	Amount/Volume	Outstanding Balance - Receivable (Payable)	Terms	Conditions
Dividend income (see Note 11):				
SIPC	₱699,999,860	₱—	Due and demandable	Unsecured
BLCI	14,962,497	—	Due and demandable	Unsecured
SECI	7,999,998	—	Due and demandable	Unsecured
SLCI	2,000,000	—	Due and demandable	Unsecured
SMPC	1,459,971	—	Due and demandable	Unsecured
Associates				
Management services:				
MECO	100,006,366	—	60-day; noninterest-bearing	Unsecured,
Extension (availment) of advances:				
KSPC**	—	719,579	Due and demandable	Unsecured, no impairment
Dividend income (see Note 10):				
KSPC	968,339,126	—	Due and demandable	Unsecured, no impairment
MECO	59,999,933	—	Due and demandable	Unsecured, no impairment
Affiliates (Companies Under Common Ownership)				
Lease of office space:				
SPEC****	3,192,902	(553,201)	30-day; Noninterest- bearing; Annual escalation of 3% as agreed by the parties	Unsecured
SPDC****	671,177	(111,863)	30-day; Noninterest- bearing; Annual escalation of 3% as agreed by the parties	Unsecured
Extension (availment) of advances:				
BWUI**	644,308	553,871	60-day; noninterest-bearing	Unsecured, no impairment
SPDC***	434,027	(66,951)	60-day; noninterest-bearing	Unsecured
SPDC**	82,861	82,861	60-day; noninterest-bearing	Unsecured, no impairment
SII**	50,949	50,949	60-day; noninterest-bearing	Unsecured, no impairment
SPI**	46,170	46,170	60-day; noninterest-bearing	Unsecured, no impairment
SWRI**	11,738	158,164	60-day; noninterest-bearing	Unsecured, no impairment
WPHC**	11,238	63,504	60-day; noninterest-bearing	Unsecured, no impairment
Pure and Pam, Inc.**	—	75,000	60-day; noninterest-bearing	Unsecured, no impairment
SPEC**	66,391	66,391	60-day; noninterest-bearing	Unsecured, no impairment
KV Holdings, Inc.**	3,649	3,649	60-day; noninterest-bearing	Unsecured, no impairment
Kepeco Philippines Corp.***	—	(497,043)	60-day; noninterest-bearing	Unsecured
Officers and employees*	5,105,534	5,943,682	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"



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:

	2019	2018	2017
Short-term benefits	₱31,488,962	₱31,961,364	₱30,238,987
Pension expense	289,670	309,811	337,679
	₱31,778,632	₱32,271,175	₱30,576,666

6. Cash and Cash Equivalents

	2019	2018
Cash on hand and in banks	₱1,209,500,353	₱354,234,824
Short-term investments	1,534,398,850	1,847,153,269
	₱2,743,899,203	₱2,201,388,093

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 ₱89.3 million, ₱41.2 million and ₱10.6 million in 2019, 2018 and 2017, respectively.

7. Trade and Other Receivables

	2019	2018
Receivable from customers:		
National Grid Corporation of the Philippines (NGCP)	₱22,613,731	₱11,396,811
Independent Electricity Market Operator of the Philippines Inc. (IEMOP) (net of allowance for impairment of ₱4.0 million-and ₱3.8 million in 2019 and 2018, respectively)	21,071,382	4,738,466
Advances to officers and employees	6,698,945	4,853,571
Receivable from SIPC (see Note 5)	6,192,074	34,911
Dividends receivable (see Note 5)	5,984,999	—
Advances to an individual shareholder	3,000,000	3,000,000
Insurance claims	—	6,152,485
Advances to contractors and suppliers	—	5,181,718
Receivable from PSALM	—	1,175,128
Others	6,551,501	6,269,502
	₱72,112,632	₱42,802,592

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 contractors and suppliers in 2018 pertain to advances for refund in relation to services that will no longer be availed by the Parent Company.

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

Receivable from PSALM consist of outstanding amounts reimbursable by PSALM for other services rendered under Operation and Maintenance Service Contracts (OMSC).

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:

	2019	2018
At January 1	₱3,775,422	₱1,400,000
Provision (see Note 17)	216,047	2,375,422
At December 31	₱3,991,469	₱3,775,422

8. Materials and Supplies

	2019	2018
On hand	₱55,260,112	₱40,990,502
In transit	2,768,500	15,493,793
	₱58,028,612	₱56,484,295

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 nil, ₱135.6 million and ₱325.7 million in 2019, 2018 and 2017, respectively (see Note 25) and "Cost of services" amounted to ₱155.5 million, ₱13.2 million and nil in 2019, 2018 and 2017, respectively, in the parent company statements of comprehensive income (see Note 16).

9. Prepayments and Other Current Assets

	2019	2018
Input VAT	₱28,295,503	₱39,833,905
Prepaid insurance	5,404,577	3,861,642
Deferred input tax	1,164,613	919,740
Prepaid rent	536,579	152,872
Others	3,158,953	3,461,259
	₱38,560,225	₱48,229,418



10. Investments in Associates

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

	Principal Activity	% of Ownership	2019	2018
KEPCO SPC	Power generation	40.0	₱2,472,464,616	₱2,472,464,616
MECO	Power distribution	40.0	380,000,752	380,000,752
			₱2,852,465,368	₱2,852,465,368

KEPCO SPC

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

	2019	2018
Statements of financial position:		
Current assets	₱3,353,388,423	₱3,438,166,969
Noncurrent assets	10,185,758,230	11,186,531,786
Current liabilities	832,206,435	895,386,981
Noncurrent liabilities	184,236,487	730,253,028
Equity	12,522,703,731	12,999,058,746
Statements of comprehensive income:		
Revenue	8,342,240,486	8,812,187,716
Gross profit	3,261,222,071	3,559,735,642
Net income	2,851,004,285	2,841,290,406
Other comprehensive income (loss)	(7,298,321)	775,628
Total comprehensive income	2,843,705,964	2,842,066,034

KEPCO SPC declared and paid cash dividends to the Parent Company amounting to ₱1,328.0 million, ₱1,329.8 million and ₱968.3 million in 2019, 2018 and 2017, respectively (see Note 5).

MECO

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

	2019	2018
Statements of financial position:		
Current assets	₱2,538,137,993	₱2,655,644,061
Noncurrent assets	3,793,357,353	2,903,998,249
Current liabilities	993,387,990	932,821,162
Noncurrent liabilities	2,522,682,101	2,348,278,665
Equity	2,815,425,255	2,278,542,483
Revaluation increment on property, plant and equipment, and others	467,786,406	188,241,004

(Forward)



	2019	2018
Statements of comprehensive income:		
Revenue	₱6,651,213,663	₱6,350,888,911
Gross profit	442,284,044	338,144,507
Net income	441,331,201	292,053,994
Other comprehensive income (loss)	(332,628)	1,678,140
Total comprehensive income	440,998,573	293,732,134
Income after adjustment of depreciation on appraisal increase and others	467,669,998	322,239,793

MECO declared and paid cash dividends to the Parent Company amounting to ₱84.0 million, ₱80.0 million and ₱60.0 million in 2019, 2018 and 2017, respectively (see Note 5).

The carrying value of the investment in KEPCO SPC and MECO is reviewed at each reporting date whether the investment account is impaired. Based on management's assessment, no impairment was recognized in 2019, 2018 and 2017.

11. Investments in Subsidiaries

Details of the Parent Company's investments in subsidiaries as of December 31, 2019 and 2018 are as follows:

	Principal Activity	% of Ownership			Amount
		Direct	Indirect	Total	
SIPC	Power generation	100.00%	—	100.00%	₱274,999,995
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
					₱341,177,829

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
2019				
SIPC	November 25, 2019	December 10, 2019	₱350.0	₱14.0 (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
2018				
SIPC	November 28, 2018	December 12, 2018	350.0	14.0 (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
2017				
SIPC	November 20, 2017	December 6, 2017	700.0	28.0 (common)
SLCI	November 20, 2017	December 6, 2017	5.0	0.1586
BLCI	August 8, 2017	August 15, 2017	15.0	0.20
	December 6, 2017	December 15, 2017	22.5	0.30
SECI	November 20, 2017	December 6, 2017	20.0	1.0574
SMPC	November 20, 2017	December 6, 2017	3.65	14.60



12. Property, Plant and Equipment

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
Cost							
At January 1, as previously reported	₱405,032,768	₱20,632,838	₱10,376,475	₱6,485,329	₱14,888,880	₱–	₱457,416,290
Effect of adoption of PFRS 16	–	–	–	–	–	1,395,279	1,395,279
At January 1, as restated	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
Accumulated Depreciation and Impairment							
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	₱436,877,501	₱4,063,098	₱1,631,736	₱105,989	₱–	6,817,394	₱449,495,718

2018							
	Buildings, Plant Machinery and Equipment	Motor Vehicles	Furniture and Office Equipment	Partitions and Air Conditioners	Construction in Progress		Total
Cost							
At January 1	₱98,148,109	₱22,994,526	₱15,631,616	₱6,419,812	₱372,458,478		₱515,652,541
Additions	14,440,009	1,300,000	799,966	65,517	30,016,375		46,621,867
Transfers	387,585,973	–	–	–	(387,585,973)		–
Transfer to NCA held for sale	(68,716,152)	–	–	–	–		(68,716,152)
Disposals	(26,425,171)	(3,661,688)	(6,055,107)	–	–		(36,141,966)
At December 31	405,032,768	20,632,838	10,376,475	6,485,329	14,888,880		457,416,290
Accumulated Depreciation and Impairment							
At January 1	60,792,951	19,628,997	15,103,342	6,090,238	–		101,615,528
Depreciation during the year (see Note 19)	10,766,277	1,149,256	352,949	143,670	–		12,412,152
Impairment	14,266,880	–	–	–	–		14,266,880
Other adjustments	3,606,770	–	–	–	–		3,606,770
Transfer to NCA held for sale	(50,503,152)	–	–	–	–		(50,503,152)
Disposals	(25,836,722)	(3,661,688)	(6,009,594)	–	–		(35,508,004)
At December 31	13,093,004	17,116,565	9,446,697	6,233,908	–		45,890,174
Net Book Value	₱391,939,764	₱3,516,273	₱929,778	₱251,421	₱14,888,880		₱411,526,116

Acquisition and Rehabilitation of Power Barge (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 statement of financial position amounted to ₹450.5 million and ₹402.5 million as of December 31, 2019 and 2018, respectively.



Noncurrent Assets Held for Sale

On its resolution dated May 28, 2018, the BOD announced its decision to sell a group of assets, including machineries and equipment, and spare parts inventories. In March 2019, the Parent Company engaged the services of an appraiser to determine the disposal group's fair value less cost to sell as follows:

	Carrying Amount at Reporting Date Before Reclassified as Held for Sale	Impairment Losses (see Note 17)	Carrying Amount After Impairment Losses*
Machineries and equipment	₱32,479,880	₱14,266,880	₱18,213,000
Inventories	—	—	—
	₱32,479,880	₱14,266,880	₱18,213,000

*Based on fair values as determined by an independent appraiser.

As of December 31, 2018, the Parent Company considers its noncurrent assets held for sale with fair value of ₱18.2 million under Level 3 classification (see Note 3). In valuing the noncurrent assets held for sale, the Parent Company used the Sales Comparison Approach, using price per net weight as its key valuation. The Sales Comparison Approach is a comparative approach to value that considers the sales of similar or substitute properties and related market data and establishes a value estimate by processes involving comparison.

For the Sales Comparison Approach, a significant increase (decrease) in price per net weight, in isolation, would result to a higher (lower) fair value.

The Parent Company has determined that the highest and best use of its noncurrent assets held for sale is its current use.

The ARO related to the disposal group has been remeasured to ₱2.2 million as of December 31, 2019, resulting to reversal of ARO amounting to ₱21.3 million in 2018. In 2018 and 2017, interest accretion from the ARO amounted to ₱0.9 million and ₱0.8 million, respectively.

As of December 31, 2018, the ARO is presented as "Liabilities directly associated with noncurrent asset held for sale" in the parent company statements of financial position.

In 2019, the Parent Company sold to a third party the noncurrent asset held for sale with carrying amount of ₱14.4 million, net of the liability directly associated with the noncurrent asset held for sale, for ₱7.1 million, exclusive of VAT. The sale resulted to a loss amounting to ₱7.3 million and is recorded under "Others - net" in the parent company statements of comprehensive income. The Parent Company sold the remaining amount of ₱1.6 million, plus hauling cost amounting to ₱4.0 million, to SIPC for ₱5.6 million, exclusive of VAT.

Cost of fully depreciated property, plant and equipment that are still being used by the Parent Company amounted to ₱19.8 million and ₱35.9 million as of December 31, 2019 and 2018, respectively.



13. Other Noncurrent Assets

	2019	2018
Investment in proprietary club shares	₱7,300,000	₱6,500,000
Advances to suppliers and contractors	11,208,890	–
Software costs (net of accumulated amortization of ₱2.4 million and ₱1.8 million in 2019 and 2018, respectively) (see Note 19)	3,649,508	4,257,760
Project development costs	7,597,915	6,602,953
	₱29,756,313	₱17,360,713

In 2019, 2018 and 2017, the Parent Company recognized “Unrealized valuation gain on financial asset at FVOCI” amounting to ₱0.8 million, ₱1.5 million and nil, respectively, in the parent company statements of comprehensive income for its investment in proprietary club shares.

As of December 31, 2019, advances to suppliers and contractors amounted to ₱11.2 million, pertaining to the down payment for the turbochargers which will be recouped and applied against future billings of the suppliers and contractors.

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

	2019	2018
At January 1	₱1,824,754	₱1,216,503
Amortization (see Note 19)	608,251	608,251
At December 31	₱2,433,005	₱1,824,754

14. Trade and Other Payables

	2019	2018
Trade	₱43,874,171	₱27,684,826
Nontrade	22,983,554	20,112,597
Accrued expenses:		
Withholding taxes and other statutory liabilities	10,504,189	6,851,862
Terminal leave pay	5,979,755	5,979,755
Accrued rent	925,278	1,744,446
Others	5,978,512	2,606,180
	₱90,245,459	₱64,979,666

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 ₱14.1 million as of December 31, 2019 and 2018, 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, 2019 and 2018:

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, 2019, the Parent Company has 775 stockholders including 82 depository participants counted as one stockholder each.

As of December 31, 2019 and 2018, 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
2019				
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
2018				
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
2017				
November 20, 2017	December 6, 2017	December 14, 2017	598.6	0.40
May 30, 2017	June 14, 2017	June 30, 2017	598.6	0.40

On May 7, 2020, the BOD of the Parent Company approved the declaration of cash dividends equivalent to ₱0.40 per share, or for a total of ₱598.6 million, to all stockholders of records as of May 22, 2020 payable on May 29, 2020.

Retained Earnings

Retained earnings are also restricted for dividend declaration to the extent of the acquisition price of the treasury shares amounting to ₱131.0 million as of December 31, 2019 and 2018.



Appropriation

On November 20, 2017, the Board of Directors (BOD) of the Parent Company approved the following: (i) reversal of retained earnings appropriated on November 24, 2015 amounting to ₱400.0 million due to the full prepayment of the related long-term debt on October 28, 2017 and the reinstatement of the same amount as unappropriated retained earnings; (ii) retention of previously approved appropriation of retained earnings amounting to ₱850.0 for the construction of a CFBC coal-fired thermal power plant with a capacity of at least 300 MW in the province of Cebu or Visayas within the years 2018-2020; and (iii) appropriation of ₱500.0 million out of the unappropriated retained earnings of the Parent Company for the construction of two run-of-river hydro-electric power plant projects in Palawan with a capacity of 15.8 MW to commence within the years 2018–2019.

On November 28, 2018, the BOD of the Parent Company approved the following: (i) reversal of ₱850.0 million appropriation 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; (ii) reversal of ₱500.0 million appropriation for two run-of-river hydro-electric power plant projects in Palawan due to unsuccessful conclusion of final studies/negotiations; and (iii) appropriation of ₱1.5 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 IBohol 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 Parent Company's BOD approved the reversal of a portion of its 2018 appropriation amounting to ₱1.0 billion.

On November 25, 2019, the BOD of the Parent Company approved the following: (i) 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) appropriation of retained earnings amounting to ₱1.0 billion to invest in SPC Island Power Corporation for the 44.2 MW expansion of Bohol Diesel Power Plant in the years 2020-2021. The BOD further confirmed the 2018 appropriation of retained earnings amounting to ₱500.0 million for IBohol 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:

	2019	2018	2017
Net income	₱1,833,928,321	₱1,951,016,504	₱1,807,227,712
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	₱1.30	₱1.21

There are no potentially dilutive common stocks issued as of December 31, 2019, 2018 and 2017.



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, 2019 and 2018, the Parent Company's core capital amounted as follows:

	2019	2018
Capital stock	₱1,569,491,900	₱1,569,491,900
Additional paid-in capital	86,810,752	86,810,752
Retained earnings	4,938,966,296	4,751,244,958
Treasury stock	(131,008,174)	(131,008,174)
	₱6,464,260,774	₱6,276,539,436

16. Plant Operations

	2019	2018	2017
Fuel, lubricants and chemicals (see Note 8)	₱141,732,619	₱10,413,648	₱—
Depreciation (see Note 19)	30,304,372	10,766,277	—
Personnel costs (see Note 18)	16,809,283	7,109,384	—
Spares, materials and supplies (see Note 8)	13,812,369	2,774,851	—
Repairs and maintenance	4,898,701	3,035,718	—
Purchased power	2,916,203	806,698	—
Taxes and licenses	215,362	61,382	—
Others (see Note 25)	6,711,389	1,768,705	—
	₱217,400,298	₱36,736,663	₱—

In 2018 and 2017, the incidental income from operating and preserving the NPPC, 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

	2019	2018	2017
Business development	₱44,453,037	₱21,893,463	₱13,327,094
Personnel costs (see Note 18)	37,035,069	33,266,113	41,868,350
Taxes and licenses	32,674,501	326,665	1,361,540
Shared expenses	13,900,005	13,257,495	13,539,434
Directors' fees	11,471,937	11,360,826	11,374,126
Professional fees	10,799,596	10,552,117	7,756,962
Insurance	7,850,796	8,075,139	5,746,150
Depreciation and amortization (see Note 19)	6,240,140	2,254,126	1,789,035
Transportation and travel	5,288,144	9,587,449	4,754,578
Repairs and maintenance	4,374,999	6,528,864	3,560,033
Communications	2,494,314	3,044,938	2,370,304
Corporate social responsibility	2,359,771	8,762,866	1,309,173
Association dues	1,824,828	1,874,423	1,857,594
Rentals (see Notes 5, 23 and 25)	1,649,624	6,163,371	6,478,511

(Forward)



	2019	2018	2017
Office supplies	₱1,178,912	₱1,161,853	₱1,296,573
Entertainment, amusement and recreation	1,054,384	2,271,945	1,147,736
Power and water	774,773	1,224,342	965,634
Provisions (see Notes 7 and 12)	216,047	16,642,302	1,400,000
Freight and handling	167,737	160,611	167,547
Brokerage	—	152,634	146,063
Others	4,490,638	5,262,385	4,228,307
	₱190,299,252	₱163,823,927	₱126,444,744

Taxes and licenses in 2019 include settlement of previous years' assessments amounting to ₱32.4 million including interest and penalties of ₱11.1 million.

18. Personnel Costs

	2019	2018	2017
Salaries and wages	₱37,166,999	₱27,295,465	₱21,288,182
Pension (see Note 21)	1,453,199	1,595,819	1,422,180
Other employee benefits	15,224,154	11,484,213	19,157,988
	₱53,844,352	₱40,375,497	₱41,868,350

19. Depreciation and Amortization

	2019	2018	2017
Depreciation of property, plant and equipment			
Plant operations (see Note 16)	₱30,304,372	₱10,766,277	₱—
General and administrative (see Note 17)	5,631,889	1,645,875	1,180,784
	35,936,261	12,412,152	1,180,784
Amortization of land lease			
Rental (see Notes 23 and 25):			
General and administrative (see Note 17)	—	121,293	121,293
Amortization of software costs:			
General and administrative (see Note 17)	608,251	608,251	608,251
	₱36,544,512	₱13,141,696	₱1,910,328

20. Income Tax

	2019	2018	2017
Current	₱35,474,763	₱57,226,550	₱41,372,309
Deferred	—	6,791,130	(254,551)
	₱35,474,763	₱64,017,680	₱41,117,758



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, 2019, 2018 and 2017 follows:

	2019	2018	2017
Provision for income tax computed at 30%	P560,820,925	P604,510,255	P554,503,641
Adjustments to income tax resulting from:			
Nontaxable dividend income	(534,776,017)	(539,215,136)	(526,428,416)
Impact of OSD	35,592,788	12,363,564	16,119,055
Interest income already subjected to final tax	(26,804,230)	(12,357,353)	(3,185,267)
Others	641,297	(1,283,650)	108,745
	P35,474,763	P64,017,680	P41,117,758

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 2019, 2018 and 2017, the Parent Company availed of the OSD in the computation of its taxable income.

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 employee's 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:

	2019	2018
Current service cost	₱1,533,451	₱1,450,758
Net interest cost on benefit obligation	(80,252)	145,061
	₱1,453,199	₱1,595,819

Remeasurement gain (loss) recognized under “Other comprehensive income” in the parent company statements of comprehensive income amounted to (₱2.3 million), ₱4.2 million and (₱0.9 million) in 2019, 2018 and 2017, respectively.

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

	2019	2018
At January 1	₱17,395,127	₱15,084,550
Current service cost	1,533,451	1,450,758
Interest cost	991,522	859,819
Benefits paid	(134,772)	—
Actuarial loss due to:		
Experience adjustments	4,468,498	—
Changes in demographic assumptions	32,735	—
Changes in financial assumptions	811,772	—
At December 31	₱25,098,333	₱17,395,127

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

	2019	2018
At January 1	₱18,803,054	₱12,539,614
Contributions to the retirement fund	1,306,671	1,336,585
Interest income included in net interest cost	1,071,774	714,758
Gains on return on plan assets	2,975,296	4,212,097
Benefits paid	(134,772)	—
At December 31	₱24,022,023	₱18,803,054

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

	2019	2018
At January 1	(₱1,407,927)	₱2,544,936
Pension expense for the year	1,453,199	1,595,819
Remeasurement loss (gain) on employee benefits	2,337,709	(4,212,097)
Contribution to the retirement fund	(1,306,671)	(1,336,585)
At December 31	₱1,076,310	(₱1,407,927)



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

	2019	2018
Cash and cash equivalents	₱2,615,810	₱2,531,315
Investments in government securities	18,975,270	13,840,069
Investment in bonds	1,500,000	1,500,000
Investment in listed preferred shares	761,250	760,743
Accrued interest income	179,926	182,019
Others	11,310	11,310
Total assets	24,043,566	18,825,456
Total liabilities	21,543	22,402
Fair value of plan assets	₱24,022,023	₱18,803,054

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 does not expect 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:

	2019	2018
Discount rate	4.90%	5.70%
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:

		Present Value Change of Defined Benefit Obligation	
		2019	2018
	Increase (Decrease)		
Discount rate	+100 basis points	(₱1,005,088)	(₱489,775)
	-100 basis points	1,151,671	556,391
Salary increase rate	+100 basis points	1,237,000	784,221
	-100 basis points	(1,105,494)	(713,880)

The weighted average duration of the benefit payments is approximately 15.57 years and 11.50 years as of December 31, 2019 and 2018, respectively. 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	2019	2018
Less than one year	₱11,622,864	₱8,963,955
One year to less than five years	10,357,817	5,705,505
Five years to less than 10 years	8,294,873	4,775,954
10 years to less than 15 years	10,328,051	6,175,769
15 years to less than 20 years	9,320,279	834,890
20 years and above	31,800,387	10,439,634
	₱81,724,271	₱36,895,707

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.

Interest Rate Risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Parent Company's exposure to risk of changes in market interest rates relates primarily to the Parent Company's long-term debt obligations with floating interest rates. The Parent Company's policy is to manage its interest cost using the variable-rate debts.

As of December 31, 2019 and 2018, the Parent Company does not have a financial liability that is exposed to interest rate risk.

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:

	2019			
	Total	Current	1 to 30 Days	Over 30 Days
Financial Assets				
At Amortized Cost:				
Cash and cash equivalents	₱2,743,899,203	₱2,743,899,203	₱—	₱—
Trade and other receivables	72,112,632	44,854,465	4,029,699	23,228,468
Due from related parties	3,490,565	829,793	194,597	2,466,175
	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
Financial Liabilities				
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
Net Financial Assets (Liabilities)	₱2,749,384,813	₱2,745,486,265	₱3,741,685	₱156,863

*Excluding Statutory Payables

	2018			
	Total	Current	1 to 30 Days	Over 30 Days
Financial Assets				
At Amortized Cost:				
Cash and cash equivalents	₱2,201,388,093	₱2,201,388,093	₱—	₱—
Trade and other receivables	42,802,592	3,417,392	2,306,985	37,078,215
Due from related parties	368,530,669	365,469,704	268,422	2,792,543
	2,612,721,354	2,570,275,189	2,575,407	39,870,758
At FVOCI:				
Investment in proprietary club shares	6,500,000	—	—	6,500,000
	2,619,221,354	2,570,275,189	2,575,407	46,370,758
Financial Liabilities				
Other financial liabilities:				
Trade and other payables*				
Trade	27,684,826	12,084,745	2,336,766	13,263,315
Non-trade	5,975,683	454,870	1,153	5,519,660
Accrued expenses	9,842,554	906,808	380,710	8,555,036
	43,503,063	13,446,423	2,718,629	27,338,011
Due to related parties	3,119,068	532,271	258,488	2,328,309
	46,622,131	13,978,694	2,977,117	29,666,320
Net Financial Assets (Liabilities)	₱2,572,599,223	₱2,556,296,495	(₱401,710)	₱16,704,438

*Excluding Statutory Payables

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.

2019			
	Maximum exposure	Offset	Exposure to credit risk
At Amortized Cost			
Cash and cash equivalents (excluding cash on hand)	₱2,743,609,969	(₱3,500,000)	₱2,740,109,969
Trade and other receivables	72,112,632	—	72,112,632
Due from related parties	3,490,565	—	3,490,565
	₱2,819,213,166	(₱3,500,000)	₱2,815,713,166

2018			
	Maximum exposure	Offset	Exposure to credit risk
At Amortized Cost			
Cash and cash equivalents (excluding cash on hand)	₱2,201,269,600	(₱3,500,000)	₱2,197,769,600
Trade and other receivables	41,627,464	—	41,627,464
Due from related parties	368,530,669	—	368,530,669
Due from NPC/PSALM	1,175,128	—	1,175,128
	₱2,612,602,861	(₱3,500,000)	₱2,609,102,861

As of December 31, 2019 and 2018, the Parent Company's significant concentration of credit risk pertains to its trade and other receivables amounting to ₱72.1 million and ₱42.8 million, respectively, and impaired financial assets, determined based on probability of collection, have been adequately covered with allowance.

Applicable for the years ended December 31, 2019 and 2018:

The following are the details of the Parent Company's assessment of credit quality and the related ECLs as at December 31, 2019 and 2018:

General Approach

- *Cash and cash equivalents* - As of December 31, 2019 and 2018, 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, 2019 and 2018, 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, 2019 and 2018 the allowance for impairment losses as a result from performing collective and specific impairment test amounted to ₱4.0 million and ₱3.8 million. Management evaluated that the Parent Company's trade receivables are of high grade and of good credit quality.

2019					
	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Lifetime ECL Simplified Approach	Total
Gross carrying amount	₱-	₱-	₱3,700,000	₱72,404,101	₱76,104,101
Loss allowance	-	-	(3,700,000)	(291,469)	(3,991,469)
Carrying amount	₱-	₱-	₱-	₱72,112,632	₱72,112,632

2018					
	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Lifetime ECL Simplified Approach	Total
Gross carrying amount	₱-	₱-	₱3,700,000	₱41,702,886	₱45,402,886
Loss allowance	-	-	(3,700,000)	(75,422)	(3,775,422)
Carrying amount	₱-	₱-	₱-	₱41,627,464	₱41,627,464

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.
- *Advances to Contractors and Suppliers and Others*. Grading of financial assets is determined individually based on the Parent Company's collection experience with the counterparties.
- *Due from Related Parties*. 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.

Fair Value of Financial Assets and Financial Liabilities

Fair value is defined as 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. Fair values are obtained from quoted market prices, discounted cash flow models and option pricing models, as appropriate.

The following methods and assumptions are used to estimate the fair value of each class of financial instruments:

- *Cash and Cash Equivalents, Trade and Other Receivables, Due from/to Related Parties and Trade and Other Payables*. The carrying amounts of cash and cash equivalents, trade and other receivables, due from/to related parties and trade and other payables approximate their value due to the relatively short-term maturity of these financial instruments.

