

SECURITIES AND EXCHANGE COMMISSION

SEC FORM 17-Q

QUARTERLY REPORT UNDER SECTION 17 OF THE SECURITIES
REGULATION CODE AND SRC RULE 17 (2) (b) THEREUNDER

1. For the quarterly period ended June 30, 2020
2. SEC Identification AS094-002365 3. BIR Tax Identification 003-868-048
Number No.
- SPC POWER CORPORATION
4. Exact name of issuer as specified in its charter
Metro Manila, Philippines
5. Province, country or other jurisdiction of incorporation or organization
6. Industry Classification Code (SEC Use Only)
- 7th Floor, Cebu Holdings Center, Cebu Business Park, Cebu City 6000
(Manila Office: 7th Floor, Citibank Center, 8741 Paseo de Roxas, Makati City)
7. Address of Issuer's principal office Postal Code
(63 32) 232 0375; 232 0477 / (63 2) 810 4474 to 77, 810 4450, 810 4465
8. Issuer's telephone number, including area code
N.A.
9. Former name of former address, if changed since last report
10. Securities registered pursuant to Sections 8 and 12 of the SRC or Section 4 and 8 of the RSA
- | Title of Each Class | Number of Shares of Common Stock
Outstanding and Amount of Debt
Outstanding |
|--|---|
| <u>Common Shares (as of June 30, 2020)</u> | <u>1,496,551,803 shares</u> |
| <u>Total Debt (as of June 30, 2020)</u> | <u>₱829,517,650</u> |
11. Are any or all of the securities listed on a Stock Exchange?
Yes [☒] No [☐]

If yes, state the name of such Stock Exchange and the class/es of securities listed therein:

Philippine Stock Exchange

common shares

12. Check whether the issuer:

(a) has filed all reports required to be filed by Section 17 of the SRC and SRC Rule 17 thereunder or Section 11 of the RSA and RSA Rule 11(a)-1 thereunder, and Sections 26 and 141 of The Corporation Code of the Philippines during the preceding twelve (12) months or for such shorter period that the registrant was required to file such report(s):

Yes [☒]

No [☐]

(b) has been subject to such filing requirements for the past ninety (90) days.

Yes [☒]

No [☐]

PART I – FINANCIAL INFORMATION

ITEM 1. CONSOLIDATED FINANCIAL STATEMENTS

The consolidated interim financial statements of the Parent Company and its Subsidiaries (the "Group") are attached herewith as follows:

- a. Consolidated Statements of Financial Position – June 30, 2020 (unaudited) and December 31, 2019 (audited).
- b. Consolidated Statements of Comprehensive Income – Three Months Ended June 30, 2020 and 2019 (unaudited).
- c. Consolidated Statements of Comprehensive Income – Six Months Ended June 30, 2020 and 2019 (unaudited).
- d. Consolidated Statements of Changes in Stockholders' Equity – Six Months Ended June 30, 2020 and 2019 (unaudited).
- e. Consolidated Statements of Cash Flows – Six Months ended June 30, 2020 and 2019 (unaudited).
- f. Notes to the Consolidated Financial Statements.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITIONS AND RESULTS OF OPERATIONS

Hereunder is management's discussion and analysis of the significant factors affecting the financial performance, financial position and cash flows of the Parent Company and Subsidiaries (collectively referred to as the "Group"). The discussion and analysis should be read in conjunction with the accompanying interim consolidated financial statements and the notes thereto as well as the schedules and disclosures set forth elsewhere in this report.

Financial Conditions and Results of Operations

Results of Operations

Three Months Ended June 30, 2020 and 2019

Total comprehensive income of the Group shrank by 27.6% year-on-year to ₱436.4 million in the second quarter of 2020, from ₱602.6 million in the same period last year. All the Group's business segments were affected by weak demand of industrial and commercial customers as the government implemented strict lockdown protocols to arrest the coronavirus outbreak during the period.

The consolidated net income in the second quarter of 2020 translates to ₱0.29 in earnings per share, down from ₱0.40 in the same period last year.

By business unit, equity share in the earnings of investee companies contributed ₱361.8 million to the consolidated comprehensive income, down by 10.3% from ₱403.5 million in the comparable year-ago period.

Income contribution from the power generation segment substantially fell 55.5% to ₱85.2 million, from last year's ₱191.6 million, as revenues were also brought down by lower prices resulting from competition.

The distribution business segment was met with a net loss amounting to ₱10.7 million in its second-quarter performance, a turnaround from the net income of ₱6.4 million generated a year earlier. Only its residential sales expanded by 16% as customers used more electricity while kept indoors due to quarantine restrictions. Its commercial and industrial sales volume, which constitute 55% of total pre-lockdown sales volume, was down by 29%.

Consolidated revenues decreased by 52.4% to ₱428.1 million in the second quarter of 2020, from ₱898.7 million in the same period last year, due mainly to combination of weak power demand and low price brought about by competitive environment.

Consolidated cost of services likewise decreased by 50.9% to ₱315.9 million in the second quarter of 2020, from ₱643.3 million in the same period last year, due mainly to costs that go with lower volume of transactions and cost containment measures.

Consolidated administrative and general expenses went down by 46.7% to ₱37.6 million in April – June 2020, from ₱70.7 million in the same period last year, due mainly to lower expenses for business development; taxes and licenses; professional fees; transportation and travel; repairs and maintenance; and entertainment, amusement and recreation.

Interest income substantially decreased by 26.7% to ₱19.4 million, from ₱26.4 million, because of lower effective interest rate and lower amount of excess cash invested in short-term money market placements after payment of cash dividends in the last quarter of 2019 and in the second quarter of the current year.

Other service income was nil in the second quarter of the current year, versus ₱36.4 million in the year before, due to lesser other projects undertaken during the current period.

Six Months Ended June 30, 2020 and 2019

Despite reduced earnings in the second quarter of 2020, the height of the stringent lockdowns aimed at controlling the spread of COVID-19, the Group still reflected slightly higher earnings in the six months ended June 30, 2020. Total comprehensive income stood at ₱929.0 million, 0.6% higher from ₱923.4 million in the same period last year.

The consolidated net income translates to ₱0.62 in earnings per share in the first half of 2020 compared to ₱0.61 in the same period last year.

The performance likewise translated to a return on equity of 9.00% in the first semester of 2020 versus 9.06% in the same period last year.

By business segment, equity share from the earnings of investee companies remained the biggest contributor with a net income contribution of ₱749.1 million or 80.6% of the pie. This is still higher by 24.7% year-on-year due to the stellar performance before the implementation of lockdowns in the first quarter of the current year.

The power generation business segment made up the second chunk of the Group's consolidated net income contributing 17.8% of the total as of June 30, 2020. The power generation business unit posted net income of ₱165.1 million, 45.7% down from last year due to combination of the impact of COVID-19 and lower prices attributed to competition.

The power distribution business segment accounted for the balance of the pie, contributing a net income of ₱14.4 million in the first half of 2020, lower by 19.3% from last year.

Consolidated revenues decreased by 34.0% to ₱968.8 million in the first half of 2020, from ₱1,468.8 million in the same period last year, due mainly to weak demand in the second quarter of 2020 coupled by low prices attributed to competition in the power supply sector.

Consolidated cost of services likewise decreased by 32.4% to ₱715.9 million in the first half of 2020, from ₱1,058.7 million in the same period last year, due mainly to costs that go with lower volume of transactions in the second quarter of the current year and cost containment measures.

Consolidated administrative and general expenses went down by 35.2% to ₱80.7 million in first semester of 2020, from ₱124.5 million in the same period last year, due mainly to lower expenses for business development; taxes and licenses; professional fees; transportation and travel; repairs and maintenance; and entertainment, amusement and recreation.

Interest income substantially decreased by 43.9% to ₱31.4 million, from ₱55.9 million, because of lower effective interest rate and lower amount of excess cash invested in short-term money market placements after payment of cash dividends in the last quarter of 2019 and in the second quarter of the current year.

Other service income was lower at ₱18.2 million in the first half of 2020, as compared to ₱61.8 million in the same period last year, due to lesser other projects undertaken.

Financial Condition

June 30, 2020 Vs. December 31, 2019

Total consolidated assets of the Group expanded further by 2.0% to ₱11,313.0 million as at end-June 2020 from the last audited balance of ₱11,095.7 million as at end-December 2019. The increase was attributed mainly to the continued growth in: (i) the carrying value of investments and (ii) the balance of trade and other receivables.

The growth in total assets was accompanied by 11.1% decrease in total liabilities to ₱829.5 million as at end-June 2020 from ₱933.3 million as at end-December 2019.

Total stockholders' equity grew by ₱321.1 million to ₱10,483.5 million as at end-June 2020 from ₱10,162.4 million as at end-December 2019. The 3.2% net growth came from the total comprehensive income in the first half of 2020 amounting to ₱929.0 million less cash dividends declared amounting to ₱607.9 million. Book value per share rose to ₱7.01 as at end-June 2020 compared to ₱6.79 as at end-December 2019.

Further details of significant items that contributed to the changes in assets, liabilities and stockholders' equity are discussed below.

Trade and other receivables increased by 19.9% to ₱500.2 million as at end-June 2020 from ₱417.2 million as at end-December 2019 due mainly to ERC-sanctioned deferred and installment collection of power bills to customers due for payment within the enhanced community quarantine period.

Investment in associates grew by another 5.1% to ₱6,252.1 million as at end-June 2020 from ₱5,949.3 million as at end-December 2019. The increase reflected the net effect of the following: (i) addition to investment due to fresh equity share in the net earnings of investee companies amounting to ₱749.1 million in the first six months of 2020 and (ii) decrease in investments due to cash dividends received from the investee companies amounting to ₱446.3 million.

Other noncurrent assets decreased by 8.4% to ₱197.2 million as at end-June 2020 from ₱215.2 million as at end-December 2019. This was due mainly to the six-month amortization of ERC-approved Deferred Accounting Adjustments (DAA) which were incurred by PSALM/NPC in supplying energy during the previous years, thus it should be recovered/refunded by PSALM/NPC to its customers through the distribution business segment of the Group by initially charging the customers as part of the generation charge over a period of seven years from January 1, 2018.

Trade and other payables decreased by 18.9% to ₱394.3 million as at end-June 2020 from ₱486.0 million as at end-December 2019 due mainly to lower volume and lower price of fuel purchases unpaid as of June 30, 2020.

Customers' deposits grew by 6.0% to ₱158.0 million as at end-June 2020 from ₱149.1 million as at end-December 2019 due mainly to additional bill and material deposits received from customers in the first semester of 2020.

Other noncurrent liabilities decreased by 12.6% to ₱127.6 million as at end-June 2020 from ₱146.0 million as at end-December 2019. This is due mainly to amortization of cost recovery adjustment approved by ERC to be recovered by PSALM through the distribution business segment of the Group over a period of seven years from January 2018. The original amount of ₱257.6 million was booked as noncurrent liabilities pending remittance to PSALM the amount collected from customers over a period of seven years from January 2018.

Unappropriated retained earnings increased by 5.7% to ₱5,999.3 million from ₱5,677.2 million at the beginning of the year. The net increase is reflective of the

following: (i) increase due to comprehensive income attributable to equity holders of the Parent Company in the first six months of 2020 amounting to ₱920.6 million and (ii) decrease due to cash dividends amounting to ₱598.6 million that was declared by the Parent Company's Board of Directors on May 7, 2020.

Cash Flows

Cash and cash equivalents decreased by 3.3% to ₱3,121.5 million as at end-June 2020 from the end-December 2019 level of ₱3,227.4 million. Net cash flows used in financing activities exceeded net cash flows generated from operating and investing activities in the first six months of 2020.

Major sources of cash and cash equivalents in the first semester of 2020 were from operating activities and cash dividends received from investee companies amounting to ₱72.6 million and ₱446.3 million, respectively.

The net cash flow generated from operating activities of ₱72.6 million in the first semester of 2020 was 81.0% lower compared to ₱382.6 million the same period last year due mainly to: (i) lower operating income after deducting equity share in the earnings of associates and (ii) higher payment of trade and other payables.

The major applications of funds in the first semester of 2020 were: (i) payment of cash dividends amounting to ₱600.2 million, and (ii) new additions to property, plant and equipment amounting to ₱20.4 million.

Key Performance Indicators

The following financial indicators are used, among others, to evaluate the performance of the Group as of June 30, 2020 and December 31, 2019 and for the six months ended June 30, 2020 and 2019:

Key Performance Indicators	2020	2019
A. For Six Months Ended June 30, 2020 and 2019:		
Earnings Per Share	0.62	0.61
Share in Net Earnings of Associates	P749,071,556	P600,724,176
Return on Equity (total comprehensive income divided by average total equity)	9.00%	9.06%
Return on Assets (total comprehensive income divided by average total assets)	8.29%	8.24%
Cash Flows:		
Net cash flows generated from operating activities	P72,578,696	P382,624,440
Net cash flows generated from investing activities	P425,021,811	P572,775,576
Net cash flows used in financing activities	(P601,727,211)	(P599,470,708)
Solvency ratio (total comprehensive income before depreciation and amortization divided by total liabilities)	1.18	0.88
B. As of June 30, 2020, and December 31, 2019:		
Balance of cash and cash equivalents at end of period	P3,121,535,270	P3,227,403,650
Current ratio (total current assets divided by current liabilities)	9.42	7.82
Debt ratio (total liabilities divided by total assets)	0.07	0.08
Debt-to-equity ratio (total liabilities divided by total equity)	0.08	0.09

The formulas used to compute the performance indicators are shown below:

Earnings Per Share

EPS is a measure of profitability representing net income attributable to equity holders divided by the weighted average number of shares outstanding as of the end of the relevant period.

Share in Net Earnings of Associates

This indicates profitability of the investments and investees' contribution to the Group's net income. It is determined by multiplying the associate's net income by the investor's percentage of ownership, less goodwill impairment cost, if any. Goodwill is the difference between the acquisition cost of the investment and the investor's share in the value of the net identifiable assets of the investee at the date of acquisition.

Return on Equity

Return on Equity = Total comprehensive income divided by average total stockholders' equity. This ratio indicates the level of profit earned by the Group in comparison with the total amount of stockholders' equity found in the statements of financial position. The higher the return on equity, the higher the Group's ability to produce internally generated cash flows. Moreover, the higher the Group's return on equity compared to other companies in the same industry, the better.

Return on Assets

Return on Assets = Total comprehensive income divided by average total assets. This ratio measures the ability of the Group's management to realize an adequate return on the average total resources employed for the business. A high percentage rate indicates how the Group is well run and has a healthy return on assets employed.

Cash Flows

The Group uses the Statements of Cash Flows to determine the sources and application of funds for the period and to analyze and evaluate how the sources and uses of capital are being managed.

Current Ratio

Current Ratio = Total current assets divided by total current liabilities. This ratio is a rough indication of the Group's ability to service its current obligations. The higher the current ratio, the greater the Group's ability to pay its current obligations.

Debt Ratio

Debt ratio = Total liabilities divided by total assets. The ratio indicates the degree of protection provided for the Group's creditors. A high ratio generally indicates greater risk being assumed by creditors. On the other hand, a low ratio indicates greater long-term financial safety.

Debt-to-Equity Ratio

Debt-to-equity ratio = Total liabilities divided by total equity. The ratio indicates how leveraged the Group is. It compares the resources provided by creditors against the resources provided by the stockholders in running the business of the Group.

Solvency Ratio

Solvency Ratio = Total comprehensive income before depreciation and amortizations divided by total liabilities. This ratio provides another measurement of how likely the Group will be able to continue meeting its debt obligation. The higher the ratio, the greater the Company's ability to continue meeting its debt obligations.

Any Significant Elements of Income or Loss from Continuing Operations

There are no significant elements of income or loss from continuing operations.

Material Off-Balance Sheet Items

There are no material off-balance sheet transactions, arrangements, obligations, and other relationships of the Group with unconsolidated entities or other persons created during the reporting period.

Material Commitments for Capital Expenditures

As of June 30, 2020, there are no material commitments for capital expenditures other than in the ordinary course of business to improve power generation and distribution facilities. Funding comes from internally generated cash from operating activities.

Known Trends

The Group registered a 27.6% earnings drop in the second quarter of 2020 as its businesses were affected by weak power demand of industrial and commercial customers when the government implemented strict community quarantine measures to arrest the coronavirus outbreak during the period.

However, starting June 2020, power demand is observed gradually picking up as industries and commercial establishments are set to resume operations under less stringent community quarantine measures in both Luzon and Visayas. The Group will continue to further monitor the situation.

Except as already discussed herein and in the notes to the interim consolidated financial statements, management is not aware of any other trend, event or uncertainty to have had or that are reasonably expected to have a material favorable or unfavorable impact on net sales/revenues/income from continuing operations. Management is likewise not aware of any other event that will trigger direct or contingent financial obligation that is material to the Group, including any default or acceleration of an obligation.

SIGNATURES

Pursuant to the requirements of the Securities Regulation Code, the Issuer has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

SPC POWER CORPORATION
Issuer

By:


MARY ANN G. DAUGDAUG
Accountant


JAIME M. BALISACAN
SVP – Finance and Administration

Date: August 12, 2020

Date: August 12, 2020

SPC POWER CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

(Amounts in Philippine Pesos)

	June 30, 2020 (Unaudited)	Dec. 31, 2019 (Audited)	Incr. / (Decr.)	
			Amount	Percent
ASSETS				
Current Assets				
Cash and cash equivalents	3,121,535,270	3,227,403,650	(105,868,380)	-3.3%
Trade and other receivables - net	500,170,742	417,223,875	82,946,867	19.9%
Due from related parties	1,750,456	1,673,605	76,851	4.6%
Material and supplies	369,354,891	378,365,129	(9,010,238)	-2.4%
Prepayments and other current assets	75,037,547	81,543,758	(6,506,211)	-8.0%
Total Current Assets	4,067,848,906	4,106,210,017	(38,361,111)	-0.9%
Noncurrent Assets				
Investment in associates	6,252,118,672	5,949,330,471	302,788,201	5.1%
Property, plant and equipment - net	764,594,536	793,752,516	(29,157,980)	-3.7%
Deferred income tax assets	31,233,211	31,196,068	37,143	0.1%
Other noncurrent assets - net	197,237,694	215,213,331	(17,975,637)	-8.4%
Total Noncurrent Assets	7,245,184,113	6,989,492,386	255,691,727	3.7%
TOTAL ASSETS	11,313,033,019	11,095,702,403	217,330,616	2.0%
LIABILITIES & STOCKHOLDERS' EQUITY				
Current Liabilities				
Trade and other payables	394,337,463	486,047,993	(91,710,530)	-18.9%
Due to related parties	992,578	605,080	387,498	64.0%
Income tax payable	23,409,021	33,237,796	(9,828,775)	-29.6%
Current portion of lease liabilities	5,365,172	5,356,648	8,524	0.2%
Dividends payable	7,699,973	0	7,699,973	0.0%
Total current liabilities	431,804,207	525,247,517	(93,443,310)	-17.8%
Noncurrent Liabilities				
Customers' deposits	158,006,728	149,096,391	8,910,337	6.0%
Asset retirement obligation	81,430,397	81,430,397	0	0.0%
Lease liabilities - net of current portion	3,876,246	5,130,633	(1,254,387)	-24.4%
Net pension liabilities	26,832,018	26,430,161	401,857	1.5%
Other noncurrent liability	127,568,054	145,967,292	(18,399,238)	-12.6%
Total noncurrent liabilities	397,713,443	408,054,874	(10,341,431)	-2.5%
Total Liabilities	829,517,650	933,302,391	(103,784,741)	-11.1%
(Forward)				

SPC POWER CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

(Amounts in Philippine Pesos)

	June 30, 2020 (Unaudited)	Dec. 31, 2019 (Audited)	Incr. / (Decr.)	
			Amount	Percent
Stockholders' Equity				
Capital stock - P1 par value				
Authorized - 2,000,000,000 shares				
Issued - 1,569,491,900 shares	1,569,491,900	1,569,491,900	0	0.0%
Additional paid-in capital	86,810,752	86,810,752	0	0.0%
Retained earnings (Note 12):				
Unappropriated	5,999,331,030	5,677,177,016	322,154,014	5.7%
Appropriated	2,800,000,000	2,800,000,000	0	0.0%
Other comprehensive income:				
Remeasurement of employee benefits	298,265	298,265	0	0.0%
Net unrealized valuation gains				
on financial asset at FVOCI	5,650,000	5,650,000	0	0.0%
Share in remeasurement of employee				
benefits of associates	(2,154,261)	(2,154,261)	0	0.0%
Treasury stock at cost - 72,940,097 shares	(131,008,174)	(131,008,174)	0	0.0%
Equity attributable to equity holders of Parent	10,328,419,512	10,006,265,498	322,154,014	3.2%
Equity attributable to Non-controlling interests	155,095,857	156,134,514	(1,038,657)	-0.7%
Total Stockholders' Equity	10,483,515,369	10,162,400,012	321,115,357	3.2%
TOTAL LIABILITIES and EQUITY	11,313,033,019	11,095,702,403	217,330,616	2.0%

See accompanying Notes to Consolidated Financial Statements.


Mary Ann G. Daugdaug
 Accountant



Jaime M. Balisacan
 SVP - Finance & Administration

SPC POWER CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(Amounts in Philippine Pesos)

	Three Months Ended June 30		Increase / (Decrease)	
	2020 (Unaudited)	2019 (Unaudited)	Amount	Percent
REVENUE	428,126,613	898,693,778	(470,567,165)	-52.4%
COST OF SERVICES				
Plant operations	315,863,705	643,252,273	(327,388,568)	-50.9%
GROSS MARGIN	112,262,908	255,441,505	(143,178,597)	-56.1%
GENERAL AND ADM. EXPENSES	(37,640,364)	(70,669,798)	33,029,434	-46.7%
OTHER INCOME (CHARGES):				
Equity in net earnings of associates	361,747,398	403,554,118	(41,806,720)	-10.4%
Interest Income	19,369,636	26,437,177	(7,067,541)	-26.7%
Interest Expense	(122,840)	(21,861)	(100,979)	461.9%
Service Income	0	36,365,805	(36,365,805)	-100.0%
Foreign exchange gains (losses) - net	(2,483,421)	(2,129,675)	(353,746)	16.6%
Others - net	4,250,005	7,401,560	(3,151,555)	-42.6%
INCOME BEFORE INCOME TAX	457,383,322	656,378,831	(198,995,509)	-30.3%
PROVISION FOR/(BENEFIT FROM) INCOME TAX				
Current	21,017,064	53,879,701	(32,862,637)	-61.0%
Deferred	(42,653)	(62,265)	19,612	-31.5%
	20,974,411	53,817,436	(32,843,025)	-61.0%
NET INCOME	436,408,911	602,561,395	(166,152,484)	-27.6%
OTHER COMPREHENSIVE INCOME	0	0	0	0.0%
TOTAL COMPREHENSIVE INCOME	436,408,911	602,561,395	(166,152,484)	-27.6%
ATTRIBUTABLE TO:				
Equity holders of the Parent	439,723,586	599,041,481	(159,317,895)	-26.6%
Non-controlling interests	(3,314,675)	3,519,914	(6,834,589)	-194.2%
	436,408,911	602,561,395	(166,152,484)	-27.6%
EARNINGS PER SHARE (Note 3):				
Basic/diluted, for income for the period attributable to equity holders of the Parent	0.29	0.40	(0.11)	-26.6%

See accompanying Notes to Consolidated Financial Statements.


Mary Ann G. Daugdaug
 Accountant

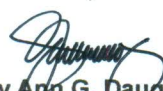

Jaime M. Balisacan
 SVP - Finance & Administration

SPC POWER CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(Amounts in Philippine Pesos)

	Six Months Ended June 30		Increase / (Decrease)	
	2020 (Unaudited)	2019 (Unaudited)	Amount	Percent
REVENUE	968,817,167	1,468,807,710	(499,990,543)	-34.0%
COST OF SERVICES				
Plant operations	715,917,804	1,058,703,651	(342,785,847)	-32.4%
GROSS MARGIN	252,899,363	410,104,059	(157,204,696)	-38.3%
GENERAL AND ADM. EXPENSES	(80,701,101)	(124,462,194)	43,761,093	-35.2%
OTHER INCOME (CHARGES):				
Equity in net earnings of associates	749,071,556	600,724,176	148,347,380	24.7%
Interest Income	31,350,934	55,876,775	(24,525,841)	-43.9%
Interest Expense	(274,510)	(43,071)	(231,439)	537.3%
Service Income	18,182,902	61,821,868	(43,638,966)	-70.6%
Foreign exchange gains (losses) - net	(2,312,370)	(2,742,225)	429,855	-15.7%
Others - net	11,879,755	15,465,480	(3,585,725)	-23.2%
INCOME BEFORE INCOME TAX	980,096,529	1,016,744,868	(36,648,339)	-3.6%
PROVISION FOR/(BENEFIT FROM) INCOME TAX				
Current	51,129,593	88,061,375	(36,931,782)	-41.9%
Deferred	(37,143)	5,243,006	(5,280,149)	-100.7%
	51,092,450	93,304,381	(42,211,931)	-45.2%
NET INCOME	929,004,079	923,440,487	5,563,592	0.6%
OTHER COMPREHENSIVE INCOME	0	0	0	0.0%
TOTAL COMPREHENSIVE INCOME	929,004,079	923,440,487	5,563,592	0.6%
ATTRIBUTABLE TO:				
Equity holders of the Parent	920,557,615	914,625,339	5,932,276	0.6%
Non-controlling interests	8,446,464	8,815,148	(368,684)	-4.2%
	929,004,079	923,440,487	5,563,592	0.6%
EARNINGS PER SHARE (Note 3):				
Basic/diluted, for income for the period attributable to equity holders of the Parent	0.62	0.61	0.00	0.6%

See accompanying Notes to Consolidated Financial Statements.


Mary Ann G. Daugdaug
Accountant


Jaime M. Balisacan
SVP - Finance & Administration

SPC POWER CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
FOR SIX MONTHS ENDED JUNE 30, 2020 AND 2019

	Equity Attributable to Equity Holders of the Parent										
	Retained Earnings						Net Unrealized Valuation Gains on Financial Assets at FVOCI	Total	Non-controlling Interest	Total	
	Capital Stock	Additional Paid- In Capital	Treasury Stock at Cost	Remeasurement of Employee Benefits	Share of Associates in OCI	Appropriated					Unappropriated
Balances at January 1, 2020	₱1,569,491,900	₱86,810,752	(₱131,008,174)	₱298,265	(₱2,154,261)	₱2,800,000,000	₱5,677,394,136	₱5,650,000	₱10,006,482,618	₱155,917,393	₱10,162,400,011
Total comprehensive income	-	-	-	-	-	-	920,557,615	-	920,557,615	8,446,464	929,004,079
Cash dividends (Note 12)	-	-	-	-	-	-	(598,620,721)	-	(598,620,721)	(9,268,000)	(607,888,721)
Reversal of appropriations	-	-	-	-	-	-	-	-	-	-	-
Balances at June 30, 2020	₱1,569,491,900	₱86,810,752	(₱131,008,174)	₱298,265	(₱2,154,261)	₱2,800,000,000	₱5,999,331,030	₱5,650,000	₱10,328,419,512	₱155,095,857	₱10,483,515,369
Balances at January 1, 2019	₱1,569,491,900	₱86,810,752	(₱131,008,174)	₱5,779,181	₱898,119	₱1,500,000,000	₱6,841,355,868	₱4,850,000	₱9,878,177,646	₱146,493,134	₱10,024,670,780
Total comprehensive income	-	-	-	-	-	-	914,625,339	-	914,625,339	8,815,148	923,440,487
Cash dividends (Note 12)	-	-	-	-	-	-	(598,620,721)	-	(598,620,721)	-	(598,620,721)
Reversal of appropriations	-	-	-	-	-	(1,000,000,000)	1,000,000,000	-	-	-	-
Balances at June 30, 2019	₱1,569,491,900	₱86,810,752	(₱131,008,174)	₱5,779,181	₱898,119	₱500,000,000	₱8,157,360,486	₱4,850,000	₱10,194,182,264	₱155,308,282	₱10,349,490,546

See accompanying Notes to Consolidated Financial Statements.

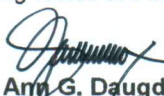

Mary Ann G. Daugdaug
 Accountant


Jaime M. Balisacan
 SVP - Finance & Administration

SPC POWER CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS

	Six Months ended June 30	
	2020	2019
	(Unaudited)	(Unaudited)
CASH FLOWS FROM OPERATING ACTIVITIES		
Income before income tax	980,096,529	1,016,744,868
Adjustments for:		
Equity in net losses (earnings) of associates	(749,071,556)	(600,724,176)
Depreciation and amortizations	50,103,066	53,837,906
Interest expense	274,510	43,071
Net changes in pension liability	401,856	(1,525,196)
Interest income	(31,350,934)	(55,876,775)
Others -net	1,994,897	3,697,616
Operating income before working capital changes	252,448,368	416,197,314
Decrease (increase) in:		
Trade and other receivables	(86,216,428)	(130,176,492)
Due from NPC/PSALM		
Due from related parties	(76,852)	(3,226,425)
Prepayments and other current assets	6,506,215	(16,997,320)
Materials and supplies	9,010,238	(41,024,221)
Increase (decrease) in:		
Trade and other payables	(91,625,574)	164,736,381
Due to related parties	387,491	(477,827)
Customers' deposits	8,860,658	4,799,662
Net cash generated from operations	99,294,116	393,831,072
Income tax paid	(60,958,367)	(67,149,653)
Interest paid	(377,549)	(78,380)
Interest received	34,620,496	56,021,401
Net cash flows from operating activities	72,578,696	382,624,440
CASH FLOWS FROM INVESTING ACTIVITIES		
Cash dividends received	446,283,356	587,143,098
Additions to plant, property and equipment	(20,402,243)	(33,403,411)
Proceeds from disposal of plant, property and equipment	107,143	0
Decrease (increase) in:		
Other noncurrent assets	(966,445)	19,035,889
Net cash provided by (used in) investing activities	425,021,811	572,775,576
CASH FLOWS FROM FINANCING ACTIVITIES		
Payment of lease liabilities	(1,538,463)	0
Cash dividends paid	(600,188,748)	(599,470,708)
Net cash provided by (used in) financing activities	(601,727,211)	(599,470,708)
NET EFFECT OF EXCHANGE RATE CHANGES	(1,741,676)	(3,087,676)
NET INCREASE IN CASH AND CASH EQUIVALENTS	(105,868,380)	352,841,632
CASH AND CASH EQUIVALENTS AT BEG. OF PERIOD	3,227,403,650	2,937,042,859
CASH AND CASH EQUIVALENTS AT END OF PERIOD	3,121,535,270	3,289,884,491

See accompanying Notes to Financial Statements.


Mary Ann G. Daugdaug
Accountant


Jaime M. Balisacan
SVP - Finance & Administration

SPC POWER CORPORATION AND SUBSIDIARIES
SELECTED NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS

1. General

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

	Nature of Business	% of Ownership		
		Direct	Indirect	Total
SPC Island Power Corporation	Power generation	100.00%	—	100.00%
Cebu Naga Power Corporation	Power generation	100.00%	—	100.00%
SPC Malaya Power Corporation	Power generation	40.00%	38.40%	78.40%
SPC Light Company, Inc.	Holding company	40.00%	24.00%	64.00%
Bohol Light Company, Inc.	Power distribution	39.90%	13.76%	53.66%
SPC Electric Company, Inc.	Holding company	40.00%	—	40.00%

2. Accounting Policies

The Group's consolidated interim financial statements have been prepared in compliance with Philippine Financial Reporting Standards (PFRS). Measurements are on historical cost basis, except for financial assets at FVOCI which have been measured at fair value, and are presented in Philippine Peso, the Group's functional and presentation currency.

The accounting policies adopted in the preparation of the interim financial statements are the same as those mentioned in the audited financial statements for the year 2019.

3. Earnings Per Share

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

	Six Months Ended June 30	
	2020	2019
Net income attributable to equity holders of the parent	₱920,557,615	₱914,625,339
Weighted average number of common shares issued and outstanding	1,496,551,803	1,496,551,803
Basic/Diluted earnings per share	₱0.62	₱0.61

Computation of weighted average number of common shares issued and outstanding follows:

Number of shares issued	1,569,491,900
Less weighted average number of treasury shares	72,940,097
	1,496,551,803

There are no dilutive potential common stocks issued as of June 30, 2020.

4. Seasonal Aspects

The group does not have any seasonal aspect that has a material effect on its financial condition and results of operations.

5. Nature and Amount of Items Affecting Assets, Liabilities, Equity, Net Income, or Cash Flows That Are Unusual Because of Their Nature, Size or Incidence.

Aside from what are already disclosed in the management's discussion and analysis of financial condition and results of operations, there are no other assets, liabilities, equity, net income or cash flows that are unusual because of their nature, size or incidence.

6. Nature and Amount of Changes in Estimates of Amounts Reported in Prior Interim Periods of the Current Financial Year or Changes in Estimates of Amounts Reported in Prior Financial Years, if Those Changes Have a Material Effect in the Current Interim Period.

There are no changes in estimates of amounts in the first semester of 2020.

7. Issuances, Repurchases & Repayments of Debts & Equity Securities.

There are no issuances, repurchases and repayments of debt and equity securities during the six months ended June 30, 2020.

8. Segment Information

For management purposes, the Group is organized into business units based on their products and services provided as follows:

- Generation - generation and supply of power and ancillary services to NPC/PSALM, NGCP, distribution utilities, WESM and other customers.
- Distribution - distribution and sale of electricity to the end-users.
- Others - includes the operations of SECI and SLCI such as to manage, operate and invest in power generating plants and related facilities.

The operating segments are consistent with those reported to the BOD, the Group's Chief Operating Decision Maker (CODM).

The Group operates and generates revenue principally only in the Philippines (i.e., one geographical location). Thus, geographical segment information is not presented.

The CODM 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 in the consolidated financial statements.

No inter-segment revenues were earned within the Group in the six months ended June 30, 2020 and 2019.

The following tables present revenue and income information and certain asset and liability information regarding the business segments as of June 30, 2020 and 2019:

June 30, 2020							
	Before Eliminations			Total	Adjustments and Eliminations	After Eliminations/ Consolidated	
	Generation	Distribution	Others				
Revenue	₱485,133,726	₱483,683,441	₱-	₱968,817,167	₱-	₱968,817,167	
Income before income tax	662,487,796	20,808,617	4,743,917	688,040,330	292,056,199	980,096,529	
Net income	617,771,860	14,432,103	4,743,917	636,947,880	292,056,199	929,004,079	
Total assets	7,425,667,002	778,256,217	95,110,586	8,299,033,805	3,013,999,214	11,313,033,019	
Property, plant and equipment	561,027,676	201,988,415	-	763,016,091	1,578,445	764,594,536	
Total liabilities	313,398,518	537,210,320	111,514	850,720,352	(21,202,702)	829,517,650	
Depreciation and amortization	39,716,599	10,386,467	-	50,103,066	-	50,103,066	

June 30, 2019							
	Before Eliminations			Total	Adjustments and Eliminations	After Eliminations/ Consolidated	
	Generation	Distribution	Others				
Revenue	₱877,939,722	₱590,867,988	₱-	₱1,468,807,710	₱-	₱1,468,807,710	
Income before income tax	977,318,726	24,857,265	987,799	1,003,163,790	13,581,078	1,016,744,868	
Net income	890,996,630	17,874,980	987,799	909,859,409	13,581,078	923,440,487	
Total assets	7,758,984,830	769,357,084	95,709,175	8,624,051,089	2,834,822,458	11,458,873,547	
Property, plant and equipment	570,204,342	191,339,008	-	761,543,350	-	761,543,350	
Total liabilities	576,330,929	535,731,426	99,951	1,112,162,306	(2,779,305)	1,109,383,001	
Depreciation and amortization	44,535,632	9,302,274	-	53,837,906	-	53,837,906	

Adjustments and Eliminations

Adjustments and eliminations are part of detailed reconciliations presented below:

Reconciliation of Net Income

	Six Mos. Ended June 30	
	2020	2019
Segment net income	₱636,947,879	₱909,859,409
Equity in net earnings of associates	749,071,556	600,724,176
Dividend Income	(457,015,356)	(587,143,098)
Group net income	₱929,004,079	₱923,440,487

Reconciliation of Total Assets

	June 30, 2020	Dec. 31, 2019
Segment assets	₱8,300,612,250	₱8,383,206,978
Inter-segment receivables	(30,152,109)	(27,289,252)
Investments in associates and subsidiaries	3,010,050,862	2,707,262,661
Goodwill	32,522,016	32,522,016
Group assets	₱11,313,033,019	₱11,095,702,403

Reconciliation of Total Liabilities

	June 30, 2020	Dec. 31, 2019
Segment liabilities	₱850,720,352	₱951,642,237
Inter-segment payables	(21,202,702)	(18,339,846)
Group liabilities	₱829,517,650	₱933,302,391

9. Effect of Changes in the Composition of the Issuer During the Interim Period, Including Business Combinations, Acquisition or Disposal of Subsidiaries & Long-term Investments, Restructurings, and Discontinuing Operations.

There are no changes in the composition of the registrant during the interim period.

10. Changes in Contingent Liabilities or Contingent Assets Since the Last Annual Balance Sheet Date.

There are no changes in contingent liabilities or contingent assets since the last annual balance sheet date.

11. Financial Risk Management and Policies

The Group's principal financial instruments comprise of cash and cash equivalents and trade and other payables. The Group has various other financial assets and liabilities such as trade and other receivables, trade and other payables, PSALM deferred adjustments included under "Other noncurrent assets", due from/due to related parties, dividend payable, and customers' deposits which arise directly from its operations.

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

The Group's senior management oversees the management of these risks. The Group's senior management ensures that the Group'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 Group'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 Group's exposure to risk of changes in market interest rates relates primarily to the Group's long-term debt obligations with floating interest rates. The Group's policy is to manage its interest cost using the variable-rate debts.

As of June 30, 2020 and December 31, 2019, the Group 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 Group's objective is to maintain a balance between continuity of funding and flexibility. The Group maintains sufficient cash and cash equivalents to finance its operations. Any excess cash is invested in short-term money market placements. These placements are maintained to meet maturing obligations and pay dividend declarations.

The tables below summarize the maturity profile of the Group's financial assets used to manage liquidity risk and financial liabilities at June 30, 2020 and December 31, 2019 based on contractual undiscounted payments:

June 30, 2020						
	Total	Current	1 to 30 Days	31 to 60 Days	61 to 90 Days	Over 90 Days
Financial Assets						
At amortized cost:						
Cash and cash equivalents	₱3,121,535,270	₱3,121,535,270	₱—	₱—	₱—	₱—
Trade and other receivables						
PSALM	1,015,262	—	—	—	—	1,015,262
Receivable from customers	425,962,889	193,957,018	100,081,942	49,844,704	20,896,635	61,182,590
Current portion of PSALM deferred adjustments	36,798,477	36,798,477	—	—	—	—
Others	36,394,114	1,455,554	1,554,305	1,226,673	2,062,856	30,094,726
	500,170,742	232,211,049	101,636,247	51,071,377	22,959,491	92,292,578
Due from related parties	1,750,456	64,103	17,510	21,883	15,000	1,631,960
PSALM deferred adjustments (included in "Other noncurrent assets")	127,568,054	—	—	—	—	127,568,054
	3,751,024,522	3,353,810,422	101,653,757	51,093,260	22,974,491	221,492,592
At FVOCI:						
Investment in proprietary club shares	7,300,000	—	—	—	—	7,300,000
	3,758,324,522	3,353,810,422	101,653,757	51,093,260	22,974,491	228,792,592
Financial Liabilities						
Trade and other payables						
Trade	188,500,219	165,711,403	6,666,113	4,129,941	1,756,606	10,236,156
Accrued expenses	36,617,235	24,585,166	60,998	60,998	198,939	11,711,134
Nontrade	57,988,318	48,943,823	53,873	284,076	65,856	8,640,690
	283,105,772	239,240,392	6,780,984	4,475,015	2,021,401	30,587,980
Due to related parties	992,578	495,535	—	—	—	497,043
Customers' deposits	158,006,728	—	—	—	—	158,006,728
Lease liabilities	9,982,567	—	—	—	—	9,982,567
Dividends payable	7,699,973	—	7,699,973	—	—	—
Other noncurrent liability	127,568,054	—	—	—	—	127,568,054
	587,355,672	239,735,927	14,480,957	4,475,015	2,021,401	326,642,372
Net Financial Assets (Liabilities)	₱3,170,968,850	₱3,114,074,495	₱87,172,800	₱46,618,245	₱20,953,090	(₱97,849,780)

December 31, 2019						
	Total	Current	1 to 30 Days	31 to 60 Days	61 to 90 Days	Over 90 Days
Financial Assets						
At amortized cost:						
Cash and cash equivalents	₱3,227,403,650	₱3,227,403,650	₱—	₱—	₱—	₱—
Trade and other receivables						
PSALM	1,015,262	—	—	—	—	1,015,262
Receivable from customers	346,415,517	224,498,606	32,635,928	16,940,626	16,866,642	55,473,715
Current portion of PSALM deferred adjustments	36,798,477	36,798,477	—	—	—	—
Others	32,994,619	1,327,622	1,572,107	1,406,431	1,283,492	27,404,967
	417,223,875	262,624,705	34,208,035	18,347,057	18,150,134	83,893,944
Due from related parties	1,673,605	139,476	49,571	20,366	21,959	1,442,233
PSALM deferred adjustments (included in "Other noncurrent assets")	145,967,292	—	—	—	—	145,967,292
	3,792,268,422	3,490,167,831	34,257,606	18,367,423	18,172,093	231,303,469
At FVOCI:						
Investment in proprietary club shares	7,300,000	—	—	—	—	7,300,000
	3,799,568,422	3,490,167,831	34,257,606	18,367,423	18,172,093	238,603,469
Financial Liabilities						
Trade and other payables						
Trade	263,978,646	240,273,771	5,362,375	4,536,461	224,099	13,581,940
Accrued expenses	34,604,487	22,649,303	181	—	—	11,955,003
Nontrade	65,990,324	54,526,290	70,671	156,484	88,777	11,148,102
	364,573,457	317,449,364	5,433,227	4,692,945	312,876	36,685,045
Due to related parties	605,080	22,570	43,467	—	42,000	497,043
Customers' deposits	149,096,391	—	—	—	—	149,096,391
Lease liabilities	11,443,592	—	—	—	—	11,443,592
Dividends payable	—	—	—	—	—	—
Other noncurrent liability	145,967,292	—	—	—	—	145,967,292
	671,685,812	317,471,934	5,476,694	4,692,945	354,876	343,689,363
Net Financial Assets (Liabilities)	₱3,127,882,610	₱3,172,695,897	₱28,780,912	₱13,674,478	₱17,817,217	(₱105,085,894)

Credit Risk

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

The Group trades only with recognized, creditworthy third parties. It is the Group'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 credit risk arising from the financial assets of the Group, which comprise cash and cash equivalents, trade and other receivables, due from related parties and PSALM deferred adjustments included in "Other noncurrent assets", the Group's exposure to credit risk arises from default of the counterparty.

The Group's credit risk from cash and cash equivalents is mitigated by Philippine Deposit Insurance Corporation's (PDIC) insurance coverage on the cash in bank. While the Group does not hold collateral as security, its credit risk from trade and other receivables is mitigated by the customers' deposits which are collected to guarantee any uncollected bills from the customers upon termination of the service contract.

The Group's maximum exposure equals to the carrying amount of the aforementioned instruments, excluding cash on hand, and is offset by the PDIC insurance coverage and customers' deposits. 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.

June 30, 2020			
	Maximum exposure	Offset	Exposure to credit risk
At amortized cost:			
Cash and cash equivalents (excluding cash on hand)	₱3,120,686,419	(₱9,414,378)	₱3,111,272,041
Trade and other receivables	500,170,742	(96,843,836)	403,326,906
Due from related parties	1,750,456	—	1,750,456
PSALM deferred adjustments (included in "Other noncurrent assets")	127,568,054	—	127,568,054
	₱3,750,175,671	(₱106,258,214)	₱3,643,917,457
December 31, 2019			
	Maximum exposure	Offset	Exposure to credit risk
At amortized cost:			
Cash and cash equivalents (excluding cash on hand)	₱3,220,366,103	(₱9,421,306)	₱3,210,944,797
Trade and other receivables	417,223,875	(96,843,836)	320,380,039
Due from related parties	1,673,605	—	1,673,605
PSALM deferred adjustments (included in "Other noncurrent assets")	145,967,292	—	145,967,292
	₱3,785,230,875	(₱106,265,142)	₱3,678,965,733

As of June 30, 2020 and December 31, 2019, the Group's significant concentration of credit risk pertains to its trade and other receivables and PSALM deferred adjustments amounting to ₱627.7 million and ₱563.2 million, respectively, and impaired financial assets, determined based on probability of collection, are adequately covered with allowance.

Applicable for the second quarter and year ended June 30, 2020 and December 31, 2019.

The following are the details of the Group's assessment of credit quality and the related ECLs as at June 30, 2020 and December 31, 2019:

General Approach

- *Cash and cash equivalents* - As of June 30, 2020 and December 31, 2019, the ECL relating to the cash and cash equivalents of the Group is minimal as these are deposited in reputable banks which have good bank standing, and is considered to have low credit risk.
- *Due from NPC/PSALM, related parties, and other receivables* - As of June 30, 2020 and December 31, 2019, there were no individually impaired accounts. No ECL is recognized for these receivables since there were no history of default payments. This assessment is undertaken each financial year through examining the financial position of the parties and the markets in which the parties operate.

Simplified Approach

- *Trade and other receivables* - The Group applied the simplified approach using a 'provision matrix'. As of June 30, 2020 and December 31, 2019, the allowance for impairment losses as a result from performing collective and specific impairment test amounted to P37.2 million. Management evaluated that the Parent Company's trade receivables are of high grade and of good credit quality.

June 30, 2020					
	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Lifetime ECL Simplified Approach	Total
Gross carrying amount	P-	P-	P34,702,715	P502,630,214	P537,332,929
Loss allowance	-	-	(34,702,715)	(2,459,472)	(37,162,187)
Carrying amount	P-	P-	P-	P500,170,742	P500,170,742

December 31, 2019					
	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Lifetime ECL Simplified Approach	Total
Gross carrying amount	P-	P-	P34,702,715	P419,683,347	P454,386,062
Loss allowance	-	-	(34,702,715)	(2,459,472)	(37,162,187)
Carrying amount	P-	P-	P-	P417,223,875	P417,223,875

The Group 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/Due from NPC/PSALM, NGCP and Distribution Utilities*: These are assessed as high grade since these receivables arose from the contract provisions of the ROMM Agreement, Operation and Maintenance Service Contracts (OMSC), Ancillary Services Procurement Agreements (ASPA), Power Supply Contracts (PSCs), and/or collectible from government institution.
- *Receivable from Customers of BLCI*: Receivables from commercial customers are classified as high grade; receivables from residential customers as standard; and receivables from the government, hospitals and radio stations as substandard. Classification is based on the collection history with these customers.

- *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.
- *Other Receivables:* Grading of financial assets is determined individually based on the Group's collection experience with the counterparty.

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, Trade and Other Payables and Due From/To Related Parties.* The carrying amounts of cash and cash equivalents, trade and other receivables, trade and other payables and due from/to related parties approximate their value due to the relatively short-term maturity of these financial instruments.
- *Investment in Proprietary Club Shares.* Market values have been used to determine the fair value of listed proprietary club shares.
- *Noncurrent Receivable (included in "Other Noncurrent Assets") and Other Noncurrent Liability.* The fair values of the noncurrent receivable and noncurrent liability are based on the net present value of cash flows using the prevailing market rate of interest. As of June 30, 2020 and December 31, 2019, the carrying values of the noncurrent receivable and noncurrent liability approximate their fair values.
- *Customers' Deposits.* The fair value of customers' deposits approximates the carrying value as (1) bill deposits earn interest at the prevailing market interest rate in accordance with regulatory guidelines and (2) the timing and related amounts of future cash flows relating to material deposits cannot be reasonably and reliably estimated for purposes of establishing their fair values using an alternative valuation technique.

As of June 30, 2020 and December 31, 2019, the Group considers its investment in proprietary club shares measured and carried at fair values of ₱7.3 million under Level 1 classification, respectively. The Group also considers its noncurrent receivable amounting to ₱127.6 million and ₱146.0 million as of June 30, 2020 and December 31, 2019, respectively, noncurrent liability amounting to ₱127.6 million and ₱146.0 million as of June 30, 2020 and December 31, 2019, and customers' deposits amounting to ₱158.0 million and ₱149.1 million as of June 30, 2020 and December 31, 2019, respectively, under the Level 3 classification.

During the reporting period ended June 30, 2020, there were no transfers between Level 1 and Level 2 fair value measurements, and no transfers into and out of Level 3 fair value measurements.

12. Existence of Material Contingencies and any Other Events or Transactions that are Material to an Understanding of the Current Interim Period.

- a. In a move to contain the COVID-19 outbreak, on March 13, 2020, the Office of the President of the Philippines issued a Memorandum directive to impose stringent social distancing measures in the National Capital Region effective March 15, 2020. On March 16, 2020, Presidential Proclamation No. 929 was issued, declaring a State of Calamity throughout the Philippines for a period of six (6) months and imposed an enhanced community quarantine throughout the island of Luzon until April 12, 2020, which was subsequently extended to April 30, 2020 and further extended to May 15, 2020 and May 31, 2020 for most parts of Luzon. On various dates after March 13, 2020, the respective local governments of Cebu, Bohol and Iloilo implemented similar quarantine measures through issuance of Executive Orders. These measures have caused disruptions to businesses and economic activities, and its impact on businesses continue to evolve.

The Group registered a 27.6% earnings drop in the second quarter of 2020 as its businesses were affected by weak power demand of industrial and commercial customers when the government implemented strict community quarantine measures to arrest the coronavirus outbreak during the period.

However, starting June 2020, power demand is observed gradually picking up as industries and commercial establishments are set to resume operations under less stringent community quarantine measures in both Luzon and Visayas. The Group will continue to further monitor the situation.

- b. Except as already discussed in the Management's Discussion and Analysis of Financial Conditions and Results of Operations as well as in the schedules and disclosures set forth in this Selected Notes to Interim Consolidated Financial Statements, there are no other material contingencies and any other events or transactions that are material to an understanding of the current interim period.