

We have fulfilled the responsibilities described in the *Auditor's Responsibilities for the Audit of the Consolidated Financial Statements* section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the consolidated financial statements. The results of our audit procedures, including the procedures performed to address the matter below, provide the basis for our audit opinion on the accompanying consolidated financial statements.

### ***Revenue recognition from distribution of power***

The Group's revenue from the distribution of power arises from its service contracts to a large number of customers consisting of commercial, residential, government institutions and other customers located within the Group's franchise area. Revenues from distribution of power amounted to ₱1,194.1 million, representing 43% of the total revenue in 2019. This matter is significant to our audit because the revenue recognized depends on the completeness of the electric consumption captured based on meter readings over the franchise area, as obtained on various meter reading dates; the propriety of the rates, computed and applied based on the Energy Regulatory Commission (ERC)-approved formulae, which vary depending on the types of customers; and the reliability of the billing system in processing transactions. Disclosures related to this matter are provided in Notes 3 and 23 to the consolidated financial statements.

### ***Audit response***

We obtained an understanding of the revenue process, which includes capturing electric consumption, uploading captured electric consumption to the billing system, calculating billed amounts based on ERC-approved rates and uploading data from the billing system to the financial reporting system. We also evaluated the design of the relevant controls over these processes and tested them. We also performed a test recalculation of billed amounts using the ERC-approved rates and formulae, and compared them with the amounts reflected in the billing statements.

### ***Accounting for investments in significant associates***

The Group owns 40% both of KEPCO SPC Power Corporation (KSPC) and Mactan Electric Company, Inc. (MECO). As discussed in Note 10 to the consolidated financial statements, the Group's investments in these associates are accounted for under the equity method. As of December 31, 2019, the investments in these associates amounted to ₱5.9 billion (representing 54% of the Group's consolidated total assets), and the Group's equity in net earnings from these associates for the year then ended amounted to ₱1.3 billion (representing 73% of the Group's consolidated net income). The accounting for these investments is significant to our audit because of the substantial amount of the Group's investments and equity in net earnings from these associates. Further, the Group's share in the net earnings of MECO is significantly affected by MECO's revenue recognition arising from its service contracts to various customers located within its franchise area. The recognition of such revenue depends on the completeness of the electric consumption captured based on meter readings conducted on various dates over the franchise area; the propriety of the rates, computed and applied based on the ERC-approved formulae, which vary depending on the types of customers; and the reliability of the billing system in processing transactions. MECO is audited by other auditors.



#### *Audit response*

We obtained an understanding of the Group's process in recognizing the equity in net earnings of associates, including the understanding of its business transactions. We obtained the financial information of KSPC and MECO and recomputed the Group's equity in net earnings for the year ended December 31, 2019. In addition, our audit procedures included, among others, coordinating and instructing the other auditors to perform an audit on the relevant financial information of MECO for the purpose of the Group's consolidated financial statements. We discussed the risk assessment and audit strategy of the other auditors, as well as any significant developments in MECO.

In addition to reviewing the relevant working papers of the other auditors, we also obtained an understanding of the revenue recognition process of MECO, which includes capturing electric consumption, uploading captured electric consumption to the billing system, calculating billed amounts based on ERC-approved rates and uploading data from the billing system to the financial reporting system. We reviewed the procedures performed by the other auditors to evaluate the design of the relevant controls over these processes and to test these controls, and reviewed the adequacy of such procedures. We reviewed the test recalculation of the rates using the ERC-approved rates and formulae, and the comparison done with the rate reflected on the billing statements, as performed by the other auditors.

#### **Other Information**

Management is responsible for the other information. The other information comprises the information included in the SEC Form 20-IS (Definitive Information Statement), SEC Form 17-A and Annual Report for the year ended December 31, 2019, but does not include the consolidated financial statements and our auditor's report thereon. The SEC Form 20-IS (Definitive Information Statement), SEC Form 17-A and Annual Report for the year ended December 31, 2019 are expected to be made available to us after the date of this auditor's report.

Our opinion on the consolidated financial statements does not cover the other information and we will not express any form of assurance conclusion thereon.

In connection with our audits of the consolidated financial statements, our responsibility is to read the other information identified above when it becomes available and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audits or otherwise appears to be materially misstated.

#### **Responsibilities of Management and Those Charged with Governance for the Consolidated Financial Statements**

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with PFRSs, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.





In preparing the consolidated financial statements, management is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Group's financial reporting process.

### **Auditor's Responsibilities for the Audit of the Consolidated Financial Statements**

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with PSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with PSAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.



- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in this independent auditor's report is Alvin M. Pinpin.

SYCIP GORRES VELAYO & CO.



Alvin M. Pinpin  
Partner

CPA Certificate No. 94303

SEC Accreditation No. 0781-AR-3 (Group A),

April 3, 2018, valid until April 2, 2021

Tax Identification No. 198-819-157

BIR Accreditation No. 08-001998-70-2018,

February 26, 2018, valid until February 25, 2021

PTR No. 8125280, January 7, 2020, Makati City

May 7, 2020





**SPC POWER CORPORATION AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF FINANCIAL POSITION**

	December 31	
	2019	2018
<b>ASSETS</b>		
<b>Current Assets</b>		
Cash and cash equivalents (Note 6)	P3,227,403,650	P2,937,042,859
Trade and other receivables (Notes 7 and 29)	417,223,875	436,639,425
Due from related parties (Note 5)	1,673,605	16,810,651
Materials and supplies (Note 8)	378,365,129	350,071,594
Prepayments and other current assets (Notes 9 and 29)	81,543,758	94,295,423
Total Current Assets	4,106,210,017	3,834,859,952
<b>Noncurrent Assets Held for Sale (Note 11)</b>	–	18,213,000
<b>Noncurrent Assets</b>		
Investments in associates (Note 10)	5,949,330,471	6,036,937,436
Property, plant and equipment (Note 11)	793,752,516	781,201,721
Deferred income tax assets - net (Note 25)	31,196,068	27,349,369
Net pension asset (Note 17)	–	1,407,927
Other noncurrent assets (Notes 12 and 29)	215,213,331	244,615,594
Total Noncurrent Assets	6,989,492,386	7,091,512,047
<b>TOTAL ASSETS</b>	<b>P11,095,702,403</b>	<b>P10,944,584,999</b>
<b>LIABILITIES AND EQUITY</b>		
<b>Current Liabilities</b>		
Trade and other payables (Notes 14 and 29)	P486,047,993	P489,984,531
Due to related parties (Note 5)	605,080	586,700
Income tax payable	33,237,796	31,951,991
Current portion of lease liabilities (Note 30)	5,356,648	–
Dividends payable (Note 18)	–	849,987
Total Current Liabilities	525,247,517	523,373,259
<b>Liabilities Directly Associated with Noncurrent Assets</b>		
Held for Sale (Notes 11 and 16)	–	2,234,000
<b>Noncurrent Liabilities</b>		
Customers' deposits (Note 15)	149,096,391	132,093,513
Asset retirement obligation (ARO) (Note 16)	81,430,397	60,975,535
Net pension liabilities (Note 17)	26,430,161	18,472,143
Lease liabilities - net of current portion (Note 30)	5,130,633	–
Other noncurrent liability (Note 29)	145,967,292	182,765,769
Total Noncurrent Liabilities	408,054,874	394,306,960
Total Liabilities	933,302,391	919,914,219

(Forward)



	December 31	
	2019	2018
<b>Equity Attributable to Equity Holders of the Parent</b>		
Capital stock - ₱1 par value (Note 18)		
Authorized - 2,000,000,000 shares		
Issued - 1,569,491,900 shares	<b>₱1,569,491,900</b>	₱1,569,491,900
Additional paid-in capital	<b>86,810,752</b>	86,810,752
Retained earnings (Note 18):		
Appropriated for future expansion projects	<b>2,800,000,000</b>	1,500,000,000
Unappropriated	<b>5,677,177,016</b>	6,841,355,868
Other comprehensive income:		
Remeasurement of employee benefits	<b>298,265</b>	5,779,181
Net unrealized valuation gains on financial asset at fair value through other comprehensive income (FVOCI) (Note 12)	<b>5,650,000</b>	4,850,000
Share in remeasurement of employee benefits of associates	<b>(2,154,261)</b>	898,119
Treasury stock at cost - 72,940,097 shares	<b>(131,008,174)</b>	(131,008,174)
Equity attributable to equity holders of the Parent	<b>10,006,265,498</b>	9,878,177,646
<b>Equity attributable to Non-controlling Interests (Note 18)</b>	<b>156,134,514</b>	146,493,134
Total Equity	<b>10,162,400,012</b>	10,024,670,780
<b>TOTAL LIABILITIES AND EQUITY</b>	<b>₱11,095,702,403</b>	₱10,944,584,999

*See accompanying Notes to Consolidated Financial Statements.*





**SPC POWER CORPORATION AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME**

	Years Ended December 31		
	2019	2018	2017
<b>REVENUE</b>			
Operating fees (Notes 23, 26 and 29)	₱2,799,009,238	₱2,385,914,511	₱2,350,121,191
<b>COST OF SERVICES</b>			
Plant operations (Notes 19 and 29)	2,108,524,404	1,809,497,489	1,735,571,233
<b>GROSS MARGIN</b>	690,484,834	576,417,022	614,549,958
<b>GENERAL AND ADMINISTRATIVE EXPENSES</b> (Note 20)	277,384,547	239,467,901	188,783,786
<b>OTHER INCOME (CHARGES)</b>			
Equity in net earnings of associates (Note 10)	1,327,469,713	1,265,412,079	1,137,429,320
Service income (Note 5)	123,643,736	120,007,156	100,006,366
Interest income (Note 6)	102,453,188	48,968,128	21,170,288
Changes in asset retirement obligation (Note 16)	(15,814,639)	39,119,121	21,111,756
Interest expense (Notes 15, 16, 30 and 31)	(5,557,408)	(5,334,167)	(25,389,266)
Others - net (Notes 11 and 29)	21,401,314	263,704,449	151,758,299
	1,553,595,904	1,731,876,766	1,406,086,763
<b>INCOME BEFORE INCOME TAX</b>	1,966,696,191	2,068,825,887	1,831,852,935
<b>PROVISION FOR INCOME TAX</b> (Note 25)	148,528,774	174,619,916	157,728,524
<b>NET INCOME</b>	1,818,167,417	1,894,205,971	1,674,124,411
<b>OTHER COMPREHENSIVE INCOME</b>			
<i>Items that will not be reclassified to profit or loss:</i>			
Share in remeasurement of employee benefits of associates, net of tax effect (Note 10)	(3,052,380)	981,507	(278,202)
Remeasurement of employee benefits, net of tax effect (Note 17)	(5,732,784)	4,212,097	3,528,860
Unrealized valuation gain on financial asset at FVOCI (Note 12)	800,000	1,500,000	—
	(7,985,164)	6,693,604	3,250,658
<b>TOTAL COMPREHENSIVE INCOME</b>	₱1,810,182,253	₱1,900,899,575	₱1,677,375,069
<b>NET INCOME ATTRIBUTABLE TO:</b>			
Equity holders of the Parent	₱1,782,279,548	₱1,854,292,292	₱1,643,265,605
Non-controlling interests	35,887,869	39,913,679	30,858,806
	₱1,818,167,417	₱1,894,205,971	₱1,674,124,411
<b>TOTAL COMPREHENSIVE INCOME ATTRIBUTABLE TO:</b>			
Equity holders of the Parent	₱1,774,546,252	₱1,860,985,896	₱1,644,454,872
Non-controlling interests	35,636,001	39,913,679	32,920,197
	₱1,810,182,253	₱1,900,899,575	₱1,677,375,069
<b>EARNINGS PER SHARE</b> (Note 27)			
Basic/Diluted, for income for the year attributable to equity holders of the Parent	₱1.19	₱1.24	₱1.10

See accompanying Notes to Consolidated Financial Statements.



**SPC POWER CORPORATION AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY**  
**FOR THE YEARS ENDED DECEMBER 31, 2019, 2018 and 2017**

	Equity Attributable to Equity Holders of the Parent									
	Other Comprehensive Income (Loss)									Total
	Capital Stock (Note 18)	Additional Paid-in Capital	Retained Earnings (Note 18)	Remeasurement of Employee Benefits (Note 17)	Net Unrealized Valuation Gains on Financial Assets at FVOCI (Note 12)	Unrealized Valuation Losses on AFS Investment (Note 12)	Share in Remeasurement of Employee Benefits of Associates (Note 10)	Treasury Stock at Cost	Non-controlling Interest	
Balances at January 1, 2017	₱1,569,491,900	₱86,810,752	₱1,250,000,000	₱99,615	₱-	(₱350,000)	₱194,814	(₱131,008,174)	₱8,767,705,136	₱148,281,451
Total comprehensive income	-	-	-	1,467,469	-	-	(278,202)	-	1,644,454,872	32,920,197
Appropriation (Note 18)	-	-	500,000,000	-	-	-	-	-	-	-
Reversal of appropriation (Note 18)	-	-	(400,000,000)	-	-	-	-	-	-	-
Cash dividends (Note 18)	-	-	-	-	-	-	-	-	-	-
Balances at December 31, 2017	₱1,569,491,900	₱86,810,752	₱1,350,000,000	₱1,567,084	₱-	(₱350,000)	(₱83,388)	(₱131,008,174)	₱9,214,918,568	(31,965,900)
Balances at January 1, 2018	₱1,569,491,900	₱86,810,752	₱1,350,000,000	₱1,567,084	₱3,350,000	₱-	(₱83,388)	(₱131,008,174)	₱9,214,433,192	(1,197,241,440)
Total comprehensive income	-	-	-	4,212,097	1,500,000	-	981,507	-	1,860,985,896	(1,197,241,442)
Appropriation (Note 18)	-	-	1,500,000,000	-	-	-	-	-	-	(31,965,900)
Reversal of appropriation (Note 18)	-	-	(1,350,000,000)	-	-	-	-	-	-	(1,197,241,442)
Cash dividends (Note 18)	-	-	-	-	-	-	-	-	-	(1,197,241,442)
Balances at January 1, 2019, as previously reported	1,569,491,900	86,810,752	1,500,000,000	5,779,181	4,850,000	-	898,119	(131,008,174)	9,878,177,646	(41,336,000)
Adjustment due to adoption of PIC Q&A No. 2019-12 and No. 2019-13 (Note 2)	-	-	-	-	-	-	-	-	-	(1,238,577,442)
Balances at January 1, 2019, as restated	1,569,491,900	86,810,752	1,500,000,000	5,779,181	4,850,000	-	898,119	(131,008,174)	9,878,177,646	(1,238,577,442)
Total comprehensive income	-	-	1,500,000,000	6,841,355,868	-	-	-	-	-	146,493,134
Appropriation (Note 18)	-	-	-	(231,417)	6,841,104,451	-	-	-	(251,417)	10,024,670,780
Reversal of appropriation (Note 18)	-	-	2,300,000,000	1,782,279,548	800,000	-	898,119	(131,008,174)	9,877,926,229	(217,120)
Cash dividends (Note 18)	-	-	(1,000,000,000)	(5,480,916)	-	-	(3,052,380)	-	1,774,546,252	10,024,202,243
Balances at December 31, 2019	₱1,569,491,900	₱86,810,752	₱2,800,000,000	₱298,265	₱5,650,000	₱-	(₱2,154,261)	(₱131,008,174)	₱10,006,265,498	35,636,001
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See accompanying Notes to Consolidated Financial Statements.





**SPC POWER CORPORATION AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**

	Years Ended December 31		
	2019	2018	2017
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Income before income tax	<b>₱1,966,696,191</b>	<b>₱2,068,825,887</b>	<b>₱1,831,852,935</b>
Adjustments to reconcile income before income tax to net cash flows:			
Equity in net earnings of associates (Note 10)	(1,327,469,713)	(1,265,412,079)	(1,137,429,320)
Depreciation and amortization (Note 22)	<b>111,109,192</b>	90,524,252	79,683,184
Interest expense (Notes 15, 16, 30 and 31)	<b>5,557,408</b>	5,334,167	25,389,266
Interest income (Note 6)	(102,453,188)	(48,968,128)	(21,170,288)
Net changes in pension	<b>3,400,222</b>	1,168,935	14,204,005
Changes in asset retirement obligation (Note 16)	<b>15,814,639</b>	(39,119,121)	(21,111,756)
Provision for impairment on property, plant and equipment (Note 11)	—	14,266,880	—
Loss (gain) on disposal of assets (Note 11)	<b>7,257,698</b>	(959,788)	(265,426)
Unrealized foreign exchange losses (gains)	<b>976,229</b>	(2,380,062)	(1,895,111)
Operating income before working capital changes	<b>680,888,678</b>	823,280,943	769,257,489
Decrease (increase) in:			
Trade and other receivables	<b>22,630,906</b>	54,084,165	(118,805,528)
Due from related parties	<b>15,137,046</b>	(14,964,744)	(264,441)
Materials and supplies	(28,293,535)	258,747,216	(334,015,353)
Prepayments and other current assets	<b>12,244,472</b>	73,375,432	(83,159,676)
Increase (decrease) in:			
Trade and other payables	(3,186,944)	(259,379,180)	373,919,295
Due to NPC/PSALM	—	(511,650,588)	199,494,613
Due to related parties	<b>18,380</b>	22,705	(125,961)
Customers' deposits	<b>16,912,937</b>	14,843,918	16,205,502
Net cash generated from operations	<b>716,351,940</b>	438,359,867	822,505,940
Income taxes paid	(150,856,729)	(186,152,441)	(143,523,908)
Interest paid	(906,904)	(172,441)	(22,161,906)
Interest received	<b>99,237,832</b>	49,058,548	21,105,861
Net cash flows from operating activities	<b>663,826,139</b>	301,093,533	677,925,987

(Forward)



	Years Ended December 31		
	2019	2018	2017
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Additions to property, plant and equipment (Note 11)	(P103,648,480)	(P128,548,734)	(P190,946,208)
Proceeds from disposal of property, plant and equipment	7,142,857	1,593,750	267,857
Cash dividends received (Note 10)	1,412,024,298	1,409,823,865	1,028,339,061
Collection of noncurrent receivable (Note 29)	-	1,143,240,000	-
Proceeds from disposal (payments) of other noncurrent assets	(12,957,398)	(62,298)	6,077,814
Net cash flows from investing activities	1,302,561,277	2,426,046,583	843,738,524
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
Cash dividends paid (Note 18)	(1,672,834,472)	(1,237,727,455)	(1,251,235,515)
Payments of principal portion of lease liabilities	(2,215,924)	-	-
Payments of long-term debt (Note 31)	-	-	(577,777,778)
Cash flows used in financing activities	(1,675,050,396)	(1,237,727,455)	(1,829,013,293)
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	291,337,020	1,489,412,661	(307,348,782)
<b>EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS</b>	(976,229)	2,380,062	3,101,274
<b>CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR</b>	2,937,042,859	1,445,250,136	1,749,497,644
<b>CASH AND CASH EQUIVALENTS AT END OF YEAR (Note 6)</b>	P3,227,403,650	P2,937,042,859	P1,445,250,136

See accompanying Notes to Consolidated Financial Statements.





## SPC POWER CORPORATION AND SUBSIDIARIES

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### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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#### 1. Corporate Information

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

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

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

In resolutions dated September 28, 2001, the Board of Directors 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 18).

On September 9, 2016, the Parent Company's Board of Directors 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 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%

SPC Island Power Corporation (SIPC). SIPC, a wholly owned subsidiary, was incorporated and registered with the SEC on June 26, 2001. It operates the 146.5 MW Panay Diesel Power Plant (PDPP) (located in Dingle, Iloilo) and the 22 MW Bohol Diesel Power Plant (BDPP) (located in



Tagbilaran City, Bohol) which were acquired on March 25, 2009 through the assignment of the Parent Company's rights and obligations to SIPC. It has also been operating the Olango Diesel Power Plant (ODPP) (located in the Island of Olango, Lapu-Lapu City) which supplies all the generated electricity to Mactan Electric Company, Inc. (MECO), an associate. SIPC will continue to operate the ODPP in 2020 or until the new operator that won in the bidding conducted by MECO in 2018 is qualified by the ERC.

Cebu Naga Power Corporation (CNPC). CNPC was incorporated on August 12, 2015 to undertake the development, ownership, construction, operation and management of a new 2x150 MW CFBC coal-fired power plant to replace the old CTPP 1 and CTPP 2 in the NPPC, Colon, City of Naga, Cebu. The construction of the new power plant had been aborted due to the adverse Supreme Court decision that led to the return of the NPPC to PSALM on July 31, 2018 (see Note 29). CNPC remains not to have commercial operations.

SPC Malaya Power Corporation (SMPC). SMPC was incorporated in the Republic of the Philippines and registered with the SEC on September 22, 2011. SMPC won the bidding processes for the Operation and Maintenance Service Contract (OMSC) of the 650 MW Malaya Thermal Power Plant (MTPP) located in Pililia, Rizal and accordingly operated the MTPP from October 25, 2011 to October 25, 2014. However, SMPC either did not win or did not participate in the subsequent biddings of the OMSC after October 25, 2014 for certain reasons. As of December 31, 2019, SMPC remains not to have commercial operations.

Bohol Light Company, Inc. (BLCI). BLCI was incorporated on July 21, 2000 to engage in the business of supply and distribution of electricity, subject to applicable laws, rules and regulations. On July 10, 2003, the National Electrification Commission (NEC) granted BLCI's franchise to operate electric, light and power services for a period of 25 years retroactive from October 20, 2000 to October 19, 2025 in the area presently comprised by Tagbilaran City, Bohol.

SPC Electric Company, Inc. (SECI) and SPC Light Company, Inc. (SLCI). SECI and SLCI were incorporated on October 17, 2002 and January 15, 2003, respectively, primarily to design, construct, install, commission, rehabilitate, maintain, manage, operate and invest in power generation/distribution plants and related facilities. The Parent Company has the power to govern the financial and operating policies of SECI by virtue of an agreement, making it eligible for consolidation in accordance with PFRS 10. As of December 31, 2019, SECI and SLCI remains not to have commercial operations.

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

The consolidated financial statements of the Parent Company and its subsidiaries (collectively referred to as the "Group") were authorized for issue by the Board of Directors (BOD) of the Parent Company on May 7, 2020.





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**2. Basis of Preparation, Statement of Compliance, Principles of Consolidation and Changes in Accounting Policies and Disclosures**

Basis of Preparation

The Group's consolidated 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 functional currency of the companies in the Group. All amounts are rounded to the nearest Peso except as otherwise indicated.

Statement of Compliance

The Group's consolidated financial statements are presented in accordance with the Philippine Financial Reporting Standards (PFRSs).

Principles of Consolidation

The consolidated financial statements include the accounts of the Parent Company and subsidiaries mentioned in Note 1. The financial statements of the subsidiaries are prepared for the same reporting year as the Parent Company using consistent accounting policies.

Subsidiaries are fully consolidated from the date control is transferred to the Parent Company and cease to be consolidated from the date control is transferred out of the Parent Company. Control is established 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.

All intercompany balances, income and expenses and profits and losses resulting from intercompany transactions are eliminated in full.

Non-controlling interest represents the portion of profit or loss and net assets in subsidiaries not held by the Parent Company and is presented in the consolidated statement of comprehensive income and within equity in the consolidated statement of financial position, separately from equity attributable to equity holders of the Parent Company. A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction. If the Parent Company loses control over a subsidiary, it:

- derecognizes the assets (including goodwill) and liabilities of the subsidiary;
- derecognizes the carrying amount of any non-controlling interest;
- derecognizes the cumulative translation differences, recorded in equity;
- recognizes the fair value of the consideration received;
- recognizes the fair value of any investment retained;
- recognizes any surplus or deficit in profit or loss; and
- reclassifies the Parent Company's share of components previously recognized in other comprehensive income to profit or loss or retained earnings, as appropriate.

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 consolidated financial statements of the Group.



▪ 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 Group is the lessor.

The Group 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 Group has elected to apply PFRS 16 transition relief to contracts that were previously identified as leases applying PAS 17. The Group will therefore not apply PFRS 16 to contracts that were not previously identified as containing a lease applying PAS 17.

The Group 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 consolidated statement of financial position as at January 1, 2019 are as follows:

	Increase (decrease)
Property, plant and equipment (see Note 30)	P8,552,896
Prepayments and other current assets	(507,193)
Other noncurrent assets	(5,275,501)
<b>Total Assets</b>	<b>P2,770,202</b>
Lease liabilities (see Note 30)	P3,440,186
Trade and other payables	(669,984)
<b>Total Liabilities and Equity</b>	<b>P2,770,202</b>



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

- Property, plant and equipment were recognized amounting to ₱8.6 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 ₱0.5 million and ₱5.3 million, respectively, related to prepaid rental for previous operating leases under PAS 17 were derecognized.
- Lease liabilities of ₱3.4 million were recognized.
- Accrued rent amounting to ₱0.7 million under "Trade and other payables" for previous operating leases arising from straight-line basis under PAS 17 was derecognized.

Prior to adoption of PFRS 16, the Group classified each of its leases (as lessee) at the inception date as either a finance lease or an operating lease. 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 Group; 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. Any accrued rent were also recognized under "Trade and other payables".

Upon adoption of PFRS 16, the Group 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 Group.

*Leases previously accounted for as operating leases.* The Group recognized right-of-use assets and lease liabilities for those leases previously classified as operating leases, except for short-term leases. 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 Group 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	₱5,796,445
Weighted average IBR as at January 1, 2019	7.0 %
Discounted operating lease commitments at January 1, 2019	₱5,089,810
Less commitments relating to short-term leases	1,649,624
Lease liabilities as at January 1, 2019	₱3,440,186

- Philippine Interpretations Committee Questions and Answers (PIC Q&A) No. 2019-12, *Determining the lease term under PFRS 16* and PIC Q&A No. 2019-13, *Determining the lease terms of leases that are renewable subject to mutual agreement of the lessor and the lessee*

PIC Q&A No. 2019-12 and No. 2019-13 were issued on December 23, 2019 which provides guidance on determining the lease term under PFRS 16 when the lease contract contains renewal or termination options. PIC Q&A No. 2019-13 indicates that the lease term cannot include renewal period if the renewal option cannot be unilaterally exercised by the lessee.

Consistent with these PIC Q&A, the Group has amortized the structures related to its lease contracts over the lease term since the renewal option is unenforceable considering that it cannot be unilaterally exercised by the lessee.

Upon adoption of these PIC Q&A, retained earnings and noncontrolling interests were reduced by ₱0.3 million and ₱0.2 million, respectively, and the corresponding accumulated depreciation of ₱0.5 million was recognized representing the effect of the change in the useful life of structures as at January 1, 2019.

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

- 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 consolidated financial statements of the Group.

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

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

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

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

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

▪ *Annual Improvements to PFRSs 2015-2017 Cycle*

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

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

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

These amendments are currently not applicable to the Group 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 Group because dividends declared by the Group 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 consolidated financial statements of the Group.



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

The Group will adopt the standards enumerated below when these become effective. Except as otherwise indicated, the Group does not expect the adoption of these new pronouncements to have 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 Group.

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

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

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

*Effective beginning on or after January 1, 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 consolidated financial statements of the Group.

#### *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 Group.

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

#### Cash and Cash Equivalents

Cash consists of cash on hand and in banks. Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash with original maturities of three (3) months or less from dates of acquisition and that are subject to an insignificant risk of change in value.

#### Financial Instruments - Classification and Measurement

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

- Financial assets measured at amortized cost;
- Financial assets measured at fair value through profit or loss (FVPL);
- Financial assets measured at fair value through other comprehensive income (FVOCI), where cumulative gains or losses previously recognized are reclassified to profit or loss; and
- 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 Group 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 Group 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 Group'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 Group's business model does not depend on management's intentions for an individual instrument.

The Group's business model refers to how it manages its financial assets in order to generate cash flows. The Group's business model determines whether cash flows will result from collecting contractual cash flows, selling financial assets or both. Relevant factors considered by the Group 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 Group'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 consolidated statement of 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 consolidated statement of income.

As at December 31, 2019 and 2018, the Group has financial assets at amortized cost consisting of cash and cash equivalents, trade and other receivables, due from related parties and PSALM deferred adjustments included as part of "Other noncurrent assets" in the consolidated statements of financial position (see Notes 5, 6, 7, 12, 28 and 29).



*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 consolidated 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 Group 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 Group, 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 and 2018, the Group 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 Group 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 Group 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 Group'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 Group; and
- the amount of the dividend can be measured reliably.

As at December 31, 2019 and 2018, the Group's financial assets at FVOCI includes proprietary golf club shares recorded as part of "Other Noncurrent Assets" (see Notes 12 and 28).



*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 Group 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 Group'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 Group's financial liabilities include trade and other payables, dividends payable, due to related parties, customers' deposits and other noncurrent liability (see Notes 5, 14, 15, 18, 28 and 29).

#### Impairment of Financial Assets

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





#### Offsetting Financial Instruments

Financial assets and financial liabilities are offset and the net amount reported in the consolidated statement of financial position if, and only if, the Group 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 Group assesses that it has a currently enforceable right of offset if the right is not contingent on a future event, and is legally enforceable in the normal course of business, event of default, and event of insolvency or bankruptcy of the Group and all of the counterparties.

#### 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 Group retains the right to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a 'pass-through' arrangement; or
- the Group has transferred its rights to receive cash flows from the asset and either (i) has transferred substantially all the risks and rewards of the asset, or (ii) 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 Group.

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

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

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



All assets and liabilities for which fair value is measured or disclosed in the consolidated financial statements are categorized within the fair value hierarchy, described as follows, based on the lowest level 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 Group's statements of financial position on a recurring basis, the Group determines whether transfers have occurred between Levels in the hierarchy by re-assessing categorization (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

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

#### Materials and Supplies

Materials and supplies, which consist of spare parts, fuel and consumables used in the operation, repairs and maintenance of the power generation and distribution utility plants, are stated at the lower of cost and net realizable value (NRV). Cost is determined using the 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 Group 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 assets 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

The Group's investments in associates are accounted for under the equity method of accounting. An associate is an entity in which the Group has significant influence and which is neither a subsidiary nor a joint venture.

Under the equity method, an investment in associate is carried in the consolidated statement of financial position at cost plus post-acquisition changes in the Group's share of net assets of the associates. Goodwill relating to an associate is included in the carrying amount of the investment and is not amortized. After application of the equity method, the Group determines whether it is necessary to recognize any additional impairment loss with respect to the Group's net investment in the associate. The consolidated statement of comprehensive income reflects the share of the results of operations of the associates. Where there has been a change recognized directly in the equity of the associate, the Group recognizes its share of any changes and discloses this, when applicable, in the consolidated statement of changes in equity.

The reporting dates of the associates and the Parent Company are identical and the associates' accounting policies conform to those used by the Group for like transactions and events in similar circumstances.

#### Property, Plant and Equipment

Property, plant and equipment and right-of-use assets, except land, are stated at cost, excluding the costs of day-to-day servicing, less accumulated depreciation and any allowance for impairment losses. Land held by a subsidiary is stated at cost less any accumulated impairment in value.

The initial cost of property, plant and equipment comprises its purchase price, including import duties, taxes 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 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 the remaining years of Cooperation Period (for applicable assets) or lease term, whichever is shorter, as follows:

Category	No. of Years
Distribution lines, poles and fixtures	25
Power transformers, switches and devices	15-25
Plant machinery and equipment	2-15
Motor vehicles	2-5
Structures	3-25
Furniture and office equipment	2-12
Right-of-use assets	2-7

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.

Fully depreciated assets are retained in the accounts until they are no longer in use and no further charge for depreciation and amortization is made in respect to those assets.

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 against current operations.

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

Effective January 1, 2019, it is the Group's policy to classify right-of-use assets as part of property and equipment. Prior to that date, all of the Group's leases are accounted for as operating leases in accordance with PAS 17, hence, not recorded on the statement of financial position. The Group recognizes right-of-use assets at the commencement date of the lease (i.e., the date the underlying asset is available for use). Right-of-use assets are initially measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities. The initial cost of right-of-use assets includes the amount of lease liabilities recognized, initial direct costs incurred, lease payments made at or before the commencement date less any lease incentives received and estimate of costs to be incurred by the lessee in dismantling and removing the underlying asset, restoring the site on which it is located or restoring the underlying asset to the condition required by the terms and conditions of the lease, unless those costs are incurred to produce inventories.

Unless the Group is reasonably certain to obtain ownership of the leased asset at the end of the lease term, the recognized right-of-use assets are depreciated on a straight-line basis over the shorter of their estimated useful life and lease term. Right-of-use assets are subject to impairment.

#### Other Noncurrent Assets

*Franchise.* Included as part of "Other noncurrent assets" in the consolidated statement of financial position, franchise is stated initially at cost. After initial recognition, franchise is valued at cost less accumulated amortization and any allowance for impairment losses. Costs incurred to acquire the franchise to operate the Bohol Provincial Electric System are amortized over 25 years, which is equivalent to the franchise period granted to BLCI and assessed for impairment whenever there is an indication that the franchise may be impaired. The amortization period and the amortization





method for the franchise are reviewed at least at each financial year-end. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the franchise is accounted for by changing the amortization period or method, as appropriate, and are treated as changes in accounting estimates. The amortization expense on the franchise is recognized under "Plant and operations" in the consolidated statement of comprehensive income.

Goodwill in a business combination is initially measured at cost being the excess of the aggregate of the consideration transferred and the amount recognized for non-controlling interest over the net identifiable assets acquired and liabilities assumed. If this consideration is lower than the fair value of the net assets of the subsidiary acquired, the difference is recognized in the consolidated statement of comprehensive income.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units (CGU) that are expected to benefit from the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units. Where goodwill forms part of a CGU and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in this circumstance is measured based on the relative values of the operation disposed of and the portion of the CGU retained.

Goodwill is tested for impairment annually, or when circumstances indicate that the carrying value may be impaired. Impairment is determined for goodwill by assessing the recoverable amount of each CGU (or group of CGUs) to which the goodwill relates. When the recoverable amount of the CGU is less than its carrying amount, an impairment loss is recognized. Impairment losses relating to goodwill cannot be reversed in future periods.

#### Asset Retirement Obligation (ARO)

The Group has a contractual obligation under the Land Lease Agreement (LLA) (see Notes 16 and 29) with PSALM (the Lessor) pursuant to the business acquisition of the LBGTs in 2010 by the Parent Company and the Panay and Bohol Diesel Power Plants in 2009 by SIPC, to dismantle and remove all movable and immovable improvements which have been directed to be removed by the Lessor, to clean and free the leased premises from all environmental waste, hazardous substances and hazardous materials including those resulting from any dismantling, to repair any damage caused to the leased premises and to restore the leased premises to the condition it was found at the acquisition date to the full satisfaction of the lessor, subject to ordinary wear and tear, within 180 days from the termination of the lease agreement or expiration of the lease term.

The ARO recognized represents the best estimate of the expenditures required to dismantle installed assets and restore the leased premises to their original condition at the end of the lease term. Such cost estimates are discounted using a pre-tax rate that reflects the current market assessment of the time value of money and the risks specific to the liability. The Group recognized the fair value of the liability for these obligations and capitalizes the present value of these costs as part of the balance of the property, plant and equipment accounts, which are depreciated on a straight-line basis over the remaining useful lives of the related property, plant and equipment. Each year, the ARO is increased to reflect the accretion of discount and to accrue an estimate for the effects of inflation, with the charges being recognized under "Interest expense" in the consolidated statement of comprehensive income.

While it is believed that the assumptions used in the estimation of such costs are reasonable, significant changes in these assumptions may materially affect the recorded expense or obligations



in future years. Changes in the measurement of an existing decommissioning, restoration and similar liability that result from changes in the estimated timing or amount of the outflow of resources embodying economic benefits required to settle the obligation, or a change in the discount rate, shall be accounted for in accordance with the following under the cost model of accounting for the related asset subject to (a) changes in the liability shall be added to, or deducted from, the cost of the related asset in the current period, (b) the amount deducted from the cost of the asset shall not exceed its carrying amount, the excess shall be recognized immediately in the consolidated statement of comprehensive income, and (c) if the adjustment results in an addition to the cost of an asset, the Group shall consider whether this is an indication that the new carrying amount of the asset may not be fully recoverable. If it is such an indication, the Group shall test the asset, and shall account for any impairment loss, in accordance with PAS 36.

The adjusted depreciable amount of the asset, after adjustment for changes in ARO, is depreciated over its useful life. Once the related asset has reached the end of its useful life, all subsequent changes in the ARO shall be recognized in the consolidated statement of comprehensive income as they occur.

#### Impairment of Nonfinancial Assets Except Goodwill

The Group 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 Group 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 groups 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 consolidated 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 depreciation and amortization, had no impairment loss been recognized for the asset in prior years. 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 Stock.* Own equity instruments which are reacquired are recognized at cost and deducted from equity. No gain or loss is recognized in the consolidated statement of comprehensive income on the purchase, sale, issue or cancellation of the Group's own equity instruments.

*Retained Earnings.* 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 Group 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 Group expects to be entitled in exchange for those goods or services, excluding amounts collected on behalf of third parties.

Revenue is recognized when the Group 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 Group 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 for ancillary services provided by the Parent Company and SIPC (see Notes 24 and 26), (ii) fees received for electricity generated and sold by SIPC and the Parent Company to the Wholesale Electricity Spot Market (see Notes 24 and 26), and (iii) energy fees received by SIPC for sale of electricity under various contracts with distribution utilities (see Notes 24 and 26).

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

Under PFRS 15, the Group 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.

Some contracts with customers provide unspecified quantity of energy, includes provisional Energy Regulatory Commission (ERC) rates that give rise to variable consideration. 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.



- Revenue of BLCI from the distribution of power is recognized upon supply of power to the customers under PAS 18. Under PFRS 15, revenue of BLCI from the distribution of power also qualifies as a series of distinct goods or services that are substantially the same and have the same pattern of transfer accounted for as one performance obligation. Revenue is recognized over time and based on amounts billed.

*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.

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

#### Cost and Expense Recognition

Costs and expenses are recognized in the consolidated 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 Group 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.

*Group as a lessee.* The Group applies a single recognition and measurement approach for all leases, except for short-term leases and leases of low-value assets. The Group 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 Group 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 Group 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 Group 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 defined benefit pension plan which requires contributions to be made to a separately administered fund, while SIPC and BLCI have unfunded, noncontributory, defined benefit plan covering substantially all of its regular and permanent employees.

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.

The cost of providing benefits under the defined benefit plans is actuarially determined using the projected unit credit method.

Defined benefit costs comprise the following:

- Service cost;
- Net interest on the net defined benefit liability; 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 consolidated 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 profit or loss.

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

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 Group, nor can they be paid directly to the Group. Fair value of plan assets is based on market price information. When no market price is available, the fair value of plan assets is estimated by discounting expected future cash flows using a discount rate that reflects both the risk associated with the plan assets and the maturity or expected disposal date of those assets (or, if they have no maturity, the expected period until the settlement of the related obligations). If the fair value of the plan assets is higher than the present value of the defined benefit obligation, the measurement of the resulting defined benefit asset is limited to the present value of economic benefits available in the form of refunds from the plan or reductions in future contributions to the plan.

#### 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 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 Group records uncertain tax positions on the basis of a two-step process whereby the Group 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 Group recognizes the largest amount of tax benefit that is greater than 50% likely to be realized upon ultimate settlement with related tax authority. The Group records interest and penalties on uncertain tax positions in "Income tax expense (benefit)" account in the consolidated 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 Group has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. Where the Group expects 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 consolidated financial statements are presented in Philippine Peso, the functional currency of the companies in the Group. Each entity in the Group determines its own functional currency and items included in the consolidated financial statements of each entity are measured using that 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

The Group's operating businesses are organized and managed separately according to the nature of the products and services provided, with each segment representing a strategic business unit that offers different products and serves different markets.

The Group is organized into three major business segments. Such business segments are the bases upon which the Group reports its primary segment information. Financial information on business segments is presented in Note 26 to the consolidated financial statements.

#### Contingencies

Contingent liabilities are not recognized in the consolidated financial statements. These are disclosed unless the possibility of an outflow of resources embodying economic benefits is remote. Contingent assets are not recognized in the consolidated financial statements but 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 Group's position at the reporting period (adjusting events) are reflected in the consolidated financial statements. Post year-end events that are not adjusting events are disclosed in the notes to the consolidated financial statements when material.

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

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

#### Judgments

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



*Revenue Recognition.* The Group 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 Group determines, at contract inception, whether it will transfer control of a promised good or service over time. If the Group does not satisfy a performance obligation over time, the performance obligation is satisfied at a point in time.

The Group's revenue from power generation and power distribution are to be recognized over time, since customers simultaneously receives and consumes the benefits as the Group supplies power.

Significant judgments in revenue recognition under PFRS 15 (effective January 1, 2018) are as follows:

- *Identifying Performance Obligations.* The Group 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 Group's promise to transfer the good or service to the customer is separately identifiable from the other promises in the contract.

The Group 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 Group 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 Group determined that the output method is the best method in measuring progress since actual electricity is supplied to customers. The Group recognizes revenue based on:

- For power generation and ancillary services:
  - For the variable energy payment, actual kilowatt hours consumed which are billed on a monthly basis.



- For fixed capacity payments, the Group allocates the transaction price on a straight-line basis over the contract term. The allocated fixed payments are also billed on a monthly basis.
- For power distribution, the Group uses the actual kilowatt hours consumed, which are also billed on a monthly basis.
- *Determining Method to Estimate Variable Consideration and Assessing the Constraint.* The Group 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 Group considers both the likelihood and magnitude of the revenue reversal in evaluating the extent of variable consideration the Group will subject to constraint. Factors such as i) high susceptibility to factors outside the Group'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 and provisional ERC rates that give rise to variable consideration. In estimating the variable consideration, the Group 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 Group considers whether the amount of variable consideration is constrained. The Group determined that the estimates of variable consideration are to be fully constrained based on the range of possible outcomes (i.e., unspecified quantity of energy), and the unpredictability of other factors outside the Group'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 distribution 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 Group allocates the variable amount that is no longer subject to constraint to the satisfied portion (i.e., month) which forms part of the single performance obligation, and forms part of the monthly billing of the Group.

*Assessment of Classification of Noncurrent Assets 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 Group is actively searching for potential buyers of the disposal group. The Group 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 Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. 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 Group 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.

*Determining Non-Controlling Interest (NCI) that is Material to the Group.* The Group assesses whether an NCI is material by considering factors such as the carrying amount of the NCI relative to the net equity of the Group, the profit or loss or other comprehensive income (OCI) of the subsidiary attributable to the NCI, the assets and liabilities of the related subsidiary, or the amount of dividends paid by the subsidiary to the NCI, and the proportion that these amounts bear to the Group's financial position or results of operations. The Group also considers the nature of activities of the subsidiary and its relative importance or risk compared to other operations of the Group. Based on management's assessment, it has determined that the NCI in BLCI is material to the Group. Information about this subsidiary with material NCI is disclosed in Note 18.

*Legal Contingencies.* The Group is currently involved in various legal proceedings. The estimate of probable costs for the resolution of possible claims is developed in consultation with outside counsel handling the Group's defense in these matters and is based upon an analysis of potential results of litigation. No provision for probable losses arising from legal contingencies was recognized as of December 31, 2019 and 2018.

#### Estimates and Assumptions

*Estimating Expected Credit Losses on Trade and Other Receivables, Due from NPC/PSALM and Due from Related Parties using Simplified Approach.* The Group uses the provision matrix to calculate ECLs for these receivables. The Group 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 Group's historical observed loss rates. The Group 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 Group's historical credit loss experience and forecast of economic conditions may also not be representative of customer's actual default in the future.

The Group 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 Group 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 Group 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 Group's allowance for expected credit losses of trade and other receivables, due from NPC/PSALM, due from related parties and noncurrent receivable from customers arising from PSALM's cost recovery adjustments (see Note 29) will increase the Group's recorded expenses and decrease current and noncurrent assets. As of December 31, 2019 and 2018, allowance for expected credit losses amounted to ₱37.2 million and ₱36.3 million, respectively (see Notes 5, 6 and 7). These receivables, net of allowance for expected credit losses, amounted to ₱417.2 million and ₱435.8 million as of December 31, 2019 and 2018, respectively (see Note 7).

*Estimating Allowance for Materials and Supplies Losses.* The Group 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 Group made different judgments or utilized different estimates. An increase in allowance for losses would increase recorded expenses and decrease current assets.

Allowance for losses amounted to nil as of December 31, 2019 and 2018 (see Note 8). The carrying value of the materials and supplies, net of allowance for losses, amounted to ₱378.4 million and ₱350.1 million as of December 31, 2019 and 2018, respectively (see Note 8).

*Estimating Useful Lives of Property, Plant and Equipment.* The Group estimates the useful lives of property, plant and equipment, except land held by subsidiaries and construction in progress, 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 Group recognized depreciation expense amounting to ₱110.0 million, ₱89.0 million and ₱78.3 million in 2019, 2018 and 2017, respectively (see Note 22). As of December 31, 2019 and 2018, the aggregate net book values of property, plant and equipment subjected to depreciation amounted to ₱684.9 million and ₱662.9 million, respectively (see Note 11).

*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 Group in assessing whether there is an indication that an asset's carrying amount may exceed its recoverable amount.



The Group recognized impairment loss amounting to ₱14.3 million in 2018 and nil in 2019 and 2017 (see Note 20). As of December 31, 2019 and 2018, the aggregate net book values of property, plant and equipment amounted to ₱793.8 million and ₱781.2 million, respectively (see Note 11).

*Estimating Impairment of Nonfinancial Assets other than Property, Plant and Equipment.* The Group assesses whether there are any indicators of impairment at each reporting date. These nonfinancial assets (prepayments and other current assets, investments in associates, and other noncurrent assets, excluding noncurrent receivable from PSALM) 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 are 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. For the other nonfinancial assets, the recoverable amounts are assessed if there are changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in those assets.

Based on management's assessment, there are no indicators of impairment on these nonfinancial assets. Thus, no impairment loss was recognized in 2019, 2018 and 2017. The carrying amounts of these nonfinancial assets as of December 31 are as follows (see Notes 9, 10, 12 and 13):

	2019	2018
Investments in associates	5,949,330,471	₱6,036,937,436
Prepayments and other current assets	81,543,758	94,295,423
Other noncurrent assets (excluding noncurrent receivable from PSALM, financial asset at FVOCI and goodwill)	29,424,022	22,827,809

*Estimating Asset Retirement Obligation (ARO).* The Group has a contractual obligation under the LLA with PSALM to dismantle installed assets and restore the leased premises to their original condition at the end of the lease term (see Notes 16 and 29). These estimated costs of dismantlement and restoration assume third party estimates. The Group projected the estimate using inflation rates ranging from 3.00% to 3.40% and 3.40% to 5.20% in 2019 and 2018, respectively, and discount rates of 4.97% and 7.61% in 2019 and 2018, respectively.

The amount and timing of recorded expenses for any period would differ if different assumptions are used. An increase in computed ARO would increase the recorded asset, depreciation and increase noncurrent liabilities.

As of December 31, 2019 and 2018, the ARO has a carrying value of ₱81.4 million and ₱61.0 million, respectively (see Note 16). Reversal of ARO amounted to nil, ₱39.1 million and ₱21.1 million in 2019, 2018 and 2017, respectively (see Note 16).

Information relating to the Group's ARO is disclosed in Note 16 of the consolidated financial statements.

*Estimating Realizability of Deferred Income Tax Assets.* The Group 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 Group will utilize all or part of the deferred income tax assets. The Group'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 Group.



The Group has deferred income tax assets amounting to ₱31.2 million and ₱27.3 million as of December 31, 2019 and 2018, respectively (see Note 25).

*Estimating Impairment of Goodwill.* The Group determines whether goodwill is impaired at least on an annual basis. This requires an estimation of the value in use of the cash-generating units to which the goodwill is allocated. In estimating the value in use, the Group estimated annual growth at 4% to 5% in energy sold and 5% to 12% escalation of operating expenses for the first five years. The Group assumed a zero growth rate beyond five years. The interest rate used to discount the net cash flows from operations is the weighted average cost of capital (WACC) of 14.97% for BLCI as of December 31, 2019 and 2018. Carrying amount of goodwill related to the investment in BLCI amounted to ₱32.5 million as of December 31, 2019 and 2018 (see Note 13).

*Estimating the incremental borrowing rate.* The Group cannot readily determine the interest rate implicit in the lease, therefore, it uses its IBR to measure lease liabilities. The IBR is the rate of interest that the Group would have to pay to borrow a similar term, and with a similar security, the funds necessary to obtain an asset of a similar value to the right-of-use asset in similar economic environment. The IBR therefore reflects what the Group 'would have to pay', which requires estimation when no observable rates are available. The Group estimates the IBR using observable inputs such as market interest rates when available and is required to make certain entity-specific estimates such as the Group's credit rating.

The carrying amount of the right-of-use assets and lease liabilities as of December 31, 2019 amounted to ₱13.4 million and ₱10.5 million, respectively (see Notes 11 and 30).

*Determining Fair Value of Financial Assets and Financial Liabilities.* PFRSs require 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 Group utilized a different valuation methodology. Any changes in fair value of these financial assets and liabilities would affect the consolidated statements of comprehensive income and consolidated statements of changes in equity.

Fair value of financial assets as of December 31, 2019 and 2018 amounted to ₱3,799.6 million and ₱3,579.8 million, respectively (see Note 28). Fair value of financial liabilities as of December 31, 2019 and 2018 amounted to ₱668.9 million and ₱703.9 million, respectively (see Note 28).

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## 5. Related Party Transactions

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

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 applies to the Group and covers related party transactions that meet the materiality threshold of 10% of the Group's consolidated 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 Group, in the normal course of business, has significant transactions with related parties which principally consist of the following:

Associates

- Rendering of management and other services by the Parent Company to 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 consolidated statements of comprehensive income.
- Management, operation and maintenance services rendered by SIPC on ODPP arising from the assignment of rights and obligations by the Parent Company to SIPC under the "Operations, Maintenance and Management Services Agreement" with MECO until 2026 or until a new operator that won in the bidding conducted by MECO in 2018 is qualified by the ERC, whichever is earlier. Revenue recorded under "Operating fees" amounted to ₱32.7 million, ₱41.3 million and ₱51.7 million in 2019, 2018 and 2017, respectively. Outstanding receivables from MECO on these transactions amounted to ₱2.3 million and ₱3.7 million as of December 31, 2019 and 2018, respectively, and are included as part of "Trade and other receivables" in the consolidated statements of financial position (see Note 7).
- Purchase of power by BLCI from KEPCO SPC Power Corporation (KSPC), an associate, under the Power Sales Contract between BLCI and KSPC amounting to ₱349.8 million, ₱353.5 million and ₱274.9 million in 2019, 2018 and 2017, respectively (see Note 24). Outstanding amount due to KSPC on this transaction amounted to ₱52.1 million and ₱57.6 million as of December 31, 2019 and 2018, respectively, and are included as part of "Trade and other payables" in the consolidated statements of financial position (see Note 14).
- Extension of short-term, noninterest-bearing advances by the Parent Company to KSPC for the development of the 2x100 MW Circulating Fluidized Bed Combustion (CFBC) Boiler Coal-fired Power Plant in Naga, Cebu. Outstanding amount due from KSPC amounted to ₱0.7 million as of December 31, 2019 and 2018 and are included as part of "Due from related parties" in the consolidated statements of financial position.
- Dividends received from KSPC amounting to ₱1,328.0 million, ₱1,329.8 million and ₱968.3 million in 2019, 2018 and 2017, respectively; and from MECO amounting to ₱84.0 million, ₱80.0 million and ₱60.0 million in 2019, 2018 and 2017, respectively (see Note 10).

Affiliates Under Common Ownership

- Sale of electricity to Bohol Water Utilities, Inc. (BWUI) at the same rates charged to BLCI's consumers amounted to ₱25.3 million, ₱21.5 million and ₱18.4 million in 2019, 2018 and 2017, respectively. Outstanding receivable from BWUI related to this transaction amounting to ₱3.8 million and ₱1.9 million as of December 31, 2019 and 2018, respectively, are included as part of "Trade and other receivables" in the consolidated statements of financial position (see Note 7).
- Rentals on office spaces from SPEC Properties, Inc. (SPEC), SII Properties Development Corporation (SPDC) and BWUI with lease terms ranging from 2 to 3 years amounted to ₱4.6 million, ₱4.3 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.





- Collection charges from BWUI and advances to related parties amounting to ₱1.0 million and ₱16.1 million as of December 31, 2019 and 2018, respectively, are recorded under "Due from related parties" in the consolidated statements of financial position. Advances from related parties amounting to ₱0.6 million as of December 31, 2019 and 2018 are presented as "Due to related parties" in the consolidated statements of financial position.

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

2019				
Category	Transaction	Outstanding Balance - Receivable (Payable)	Terms	Conditions
<b>Associates</b>				
Sales:				
MECO	₱32,692,362	₱2,302,234	30-day; Noninterest-bearing	Unsecured, No impairment
Technical services rendered to:				
MECO	123,643,736	–	60-day; Noninterest-bearing	Unsecured
Purchase of power from:				
KSPC	349,311,131	(52,105,325)	Interest-bearing; 91-day T-bill plus 3% per annum	Unsecured
Advances to:				
KSPC	–	719,579	Due and demandable	Unsecured, No impairment
Dividend income (see Note 10):				
KSPC	1,328,024,392	–	Due and demandable	Unsecured
MECO	83,999,906	–	Due and demandable	Unsecured
<b>Affiliates (Companies Under Common Ownership)</b>				
Sales:				
BWUI	25,252,653	3,814,664	10 days from receipt of billing	Unsecured, No impairment
Lease of office space from:				
SPEC	3,651,136	(1,217,045)	30-day; Noninterest-bearing; 3% annual escalation	Unsecured
SPDC	691,317	(230,439)	30-day; Noninterest-bearing; 3% annual escalation	Unsecured
BWUI	303,704	–	10% escalation every two years	Unsecured
Collection charges:				
BWUI	224,828	35,534	₱1.53 per receipt	Unsecured, No impairment
Advances to (from):				
BWUI	3,524,635	133,542	60-day; Noninterest-bearing	Unsecured, No impairment
SPDC	261,723	(108,037)	60-day; Noninterest-bearing	Unsecured
SPDC	87,655	251,980	60-day; Noninterest-bearing	Unsecured, No impairment
SPEC	66,854	66,854	60-day; Noninterest-bearing	Unsecured, No impairment
SII	51,152	51,152	60-day; Noninterest-bearing	Unsecured, No impairment
SPI	44,950	44,950	60-day; Noninterest-bearing	Unsecured, No impairment

(Forward)



2019				
Category	Transaction	Outstanding Balance - Receivable (Payable)	Terms	Conditions
SWRI	₱17,513	₱193,545	60-day; Noninterest-bearing	Unsecured, No impairment
WPHC	16,671	97,537	60-day; Noninterest-bearing	Unsecured, No impairment
KV Holdings, Inc.	3,932	3,932	60-day; Noninterest-bearing	Unsecured, No impairment
Kepco Philippines Corp.	-	(497,043)	60-day; Noninterest-bearing	Unsecured
Pure and Pam, Inc.	-	75,000	60-day; Noninterest-bearing	Unsecured, No impairment
Officers and employees (see Note 7)	11,083,341	7,703,053	60-day; Noninterest-bearing	Unsecured, No impairment
2013				
Category	Transaction	Outstanding Balance - Receivable (Payable)	Terms	Conditions
Associates				
Sales:				
MECO	₱41,252,611	₱3,681,281	30-day; Noninterest-bearing	Unsecured, No impairment
Technical services rendered to:				
MECO	120,007,156	-	60-day; Noninterest-bearing	Unsecured
Purchase of power from:				
KSPC	353,529,527	(57,604,568)	Interest-bearing; 91-day T-bill plus 3% per annum	Unsecured
Advances to:				
KSPC	-	719,579	Due and demandable	Unsecured, No impairment
MECO	-	1,950	60-day; Noninterest-bearing	Unsecured, No impairment
Dividend income (see Note 10):				
KSPC	1,329,823,954	-	Due and demandable	Unsecured
MECO	79,999,911	-	Due and demandable	Unsecured
Affiliates (Companies Under Common Ownership)				
Sales:				
BWUI	21,529,792	1,937,141	10 days from receipt of billing	Unsecured, No impairment
Lease of office space from:				
SPEC Properties, Inc. (SPEC)	3,319,206	(1,106,402)	30-day; Noninterest-bearing; 3% annual escalation as agreed by the parties	Unsecured
SPDC	691,317	(230,439)	30-day; Noninterest-bearing; 3% annual escalation as agreed by the parties	Unsecured
BWUI	303,704	(698,116)	10% escalation every two years	Unsecured
Collection charges:				
BWUI	231,147	19,362	₱1.53 per receipt	Unsecured, No impairment

(Forward)



2018				
Category	Transaction	Outstanding Balance - Receivable (Payable)	Terms	Conditions
Advances to (from):				
BWUI	₱22,011,437	₱15,257,372	60-day; Noninterest-bearing	Unsecured, No impairment
SPDC	268,304	(39,657)	60-day; Noninterest-bearing	Unsecured
SPDC	31,464	164,325	60-day; Noninterest-bearing	Unsecured, No impairment
SPEC	67,231	133,623	60-day; Noninterest-bearing	Unsecured, No impairment
Salcon International, Inc. (SII)	47,673	98,621	60-day; Noninterest-bearing	Unsecured, No impairment
Salcon Philippines, Inc. (SPI)	41,350	87,520	60-day; Noninterest-bearing	Unsecured, No impairment
SIPC Water Resources, Inc. (SWRI)	17,362	176,026	60-day; Noninterest-bearing	Unsecured, No impairment
WPHC	17,362	72,350	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
Pure and Pam, Inc.	—	75,000	60-day; Noninterest-bearing	Unsecured, No impairment
Officers and employees (see Note 7)	5,105,534	5,905,045	60-day; Noninterest-bearing	Unsecured, No impairment
2017				
Category	Transaction	Outstanding Balance - Receivable (Payable)	Terms	Conditions
Associates				
Sales:				
MECO	₱51,716,736	₱4,743,031	30-day; Noninterest-bearing	Unsecured, No impairment
Management services rendered to:				
MECO	100,006,366	—	60-day; Noninterest-bearing	Unsecured
Purchase of power from:				
KSPC	274,902,375	(45,911,977)	Interest-bearing; 91-day T-bill plus 3% per annum	Unsecured
Advances to:				
KSPC	—	719,579	60-day; Noninterest-bearing	Unsecured, No impairment
Dividend income (see Note 10):				
KSPC	968,339,126	—	Due and demandable	Unsecured
MECO	59,999,933	—	Due and demandable	Unsecured
Affiliates (Companies Under Common Ownership)				
Sales:				
BWUI	13,410,999	1,660,524	10 days from receipt	Unsecured, No impairment
Lease of office space from:				
SPEC	3,192,902	(553,201)	30-day; Noninterest-bearing; 3% annual escalation as agreed by the parties	Unsecured

(Forward)



2017				
Category	Transaction	Outstanding Balance - Receivable (Payable)	Terms	Conditions
SPDC	₱671,177	(₱111,363)	30-day; Noninterest-bearing; 3% annual escalation as agreed by the parties	Unsecured
BWUI	303,704	(24,296)	10% escalation every two years	Unsecured
Collection charges: BWUI	230,956	20,015	₱1.53 per receipt	Unsecured, No impairment
Advances to (from): BWUI	671,441	559,625	60-day; Noninterest-bearing	Unsecured, No impairment
SPDC	434,027	(66,951)	60-day; Noninterest-bearing	Unsecured
	32,361	32,361	60-day; Noninterest-bearing	Unsecured, No impairment
SPEC	66,391	66,391	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	153,164	60-day; Noninterest-bearing	Unsecured, No impairment
WPHC	11,238	63,504	60-day; Noninterest-bearing	Unsecured, No impairment
KV Holdings, Inc.	3,649	3,649	60-day; Noninterest-bearing	Unsecured, No impairment
Kepco Philippines Corp.	-	(497,043)	60-day; Noninterest-bearing	Unsecured, No impairment
Pure and Pam, Inc.	-	75,000	60-day; Noninterest-bearing	Unsecured, No impairment
Officers and employees	5,231,290	10,336,324	60-day; Noninterest-bearing	Unsecured, No impairment

#### Compensation and Benefits of Key Management Personnel

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

	2019	2018	2017
Short-term benefits	₱35,467,713	₱34,979,375	₱33,160,217
Pension expense	428,663	450,572	638,281
	₱35,896,376	₱35,429,947	₱33,798,498



## 6. Cash and Cash Equivalents

	2019	2018
Cash on hand	<b>₱7,037,547</b>	₱8,311,260
Cash in banks	<b>1,599,087,473</b>	926,259,184
Short-term investments	<b>1,621,278,630</b>	2,002,472,415
	<b>₱3,227,403,650</b>	₱2,937,042,859

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 Group, and earn interest at the prevailing short-term investment rates. Total interest income amounted to ₱102.5 million, ₱49.0 million and ₱21.2 million in 2019, 2018 and 2017, respectively.

## 7. Trade and Other Receivables

	2019	2018
Receivable from customers (net of allowance for impairment loss of ₱37.2 million and ₱36.3 million as of 2019 and 2018, respectively) (see Note 5)	<b>₱346,415,517</b>	₱357,596,696
Current portion of PSALM deferred adjustments (see Note 29)	<b>36,798,477</b>	36,798,477
Advances to officers and employees	<b>7,703,058</b>	5,905,045
Receivables from PSALM	<b>1,015,262</b>	2,190,390
Others (see Note 29)	<b>25,291,561</b>	34,148,817
	<b>₱417,223,875</b>	₱436,639,425

Receivable from customers arises from generation and sale of energy, distribution of purchased energy, and from provision of ancillary services.

Receivables from PSALM and customers are noninterest-bearing and are generally on a term of 1–30 days and 30–90 days, respectively.

Others mainly consist of universal charges receivable from customers that are noninterest-bearing, insurance claims and accrued interest receivables from short-term investments.

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	<b>₱36,309,125</b>	₱27,062,131
Provision (see Note 20)	<b>853,062</b>	9,209,102
Recovery of accounts written off	<b>–</b>	37,892
At December 31	<b>₱37,162,187</b>	₱36,309,125





### 8. Materials and Supplies

	2019	2018
On hand	₱374,500,072	₱334,177,686
In transit	3,865,057	15,893,908
	<b>₱378,365,129</b>	<b>₱350,071,594</b>

Materials and supplies include fuel, lubricants, chemicals, spare parts, supplies and other consumables used in the operations, repairs and maintenance of the power generation and utility plants, property 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 29) and "Cost of services" amounted to ₱741.5 million, ₱583.9 million and ₱697.8 million in 2019, 2018 and 2017, respectively, in the consolidated statements of comprehensive income (see Note 19).

### 9. Prepayments and Other Current Assets

	2019	2018
Input VAT	₱54,883,777	₱68,140,270
Prepaid insurance	7,488,921	4,152,209
Prepaid real property tax	6,416,192	3,284,389
Deferred input VAT	3,336,408	3,671,753
Prepaid income tax	1,285,623	427,996
Prepaid rent (see Note 29)	536,579	2,764,772
Deferred charges	—	6,192,626
Others	7,596,258	5,661,408
	<b>₱81,543,758</b>	<b>₱94,295,423</b>

### 10. Investments in Associates

	2019	2018
Acquisition cost:	₱2,852,565,368	₱2,852,565,368
Accumulated equity in net earnings and other comprehensive income:		
At January 1	3,184,372,068	3,327,802,347
Equity in net earnings	1,327,469,713	1,265,412,079
Share in remeasurement of employee benefits of associates, net of tax of ₱39,915 and ₱287,681 in 2019 and 2018, respectively	(3,052,380)	981,507
Dividends income	(1,412,024,298)	(1,409,823,865)
At December 31	<b>3,096,765,103</b>	<b>3,184,372,068</b>
	<b>₱5,949,330,471</b>	<b>₱6,036,937,436</b>



The Group's associates, corresponding equity ownerships, and acquisition costs follow:

	Principal Activity	% of Ownership	Acquisition Cost
KSPC	Power generation	40.0	₱2,472,464,616
MECO	Power distribution	40.0	330,000,752
SWRI	Water processing	40.0	100,000
			<b>₱2,852,565,368</b>

#### KSPC

KSPC was registered with the SEC on June 22, 2005 primarily to build, operate, maintain, own and manage the 2 x 100 MW CFBC Boiler Coal-Fired power plant in Naga, Cebu, Philippines.

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

	2019	2018	2017
Current assets	<b>₱3,353,388,423</b>	₱3,438,166,969	₱3,026,153,666
Noncurrent assets	<b>10,185,758,230</b>	11,136,531,736	11,862,369,837
Current liabilities	<b>832,206,435</b>	895,336,932	633,867,772
Noncurrent liabilities	<b>184,236,487</b>	730,253,027	714,506,077
Equity	<b>12,522,703,731</b>	12,999,058,746	13,485,149,654
Revenue	<b>8,342,240,486</b>	8,812,187,718	8,317,177,602
Gross profit	<b>3,261,222,071</b>	3,559,735,642	3,708,509,781
Net income	<b>2,851,004,285</b>	2,841,290,406	2,563,051,257
Other comprehensive income (loss)	<b>(7,298,321)</b>	775,623	(215,914)
Total comprehensive income	<b>2,843,705,964</b>	2,842,066,034	2,562,835,343
Group's share in net income	<b>1,140,401,714</b>	1,136,516,162	1,025,220,503
Carrying amount of the investment	<b>5,009,844,373</b>	5,200,386,379	5,394,822,743
Dividends received from KSPC	<b>1,328,024,392</b>	1,329,823,954	968,339,128

KSPC 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).

As of December 31, 2019, 2018 and 2017, the Group's share in the net assets of KSPC approximates the carrying value of its investment amounting to ₱5,009.8 million, ₱5,200.4 million and ₱5,394.8 million, respectively.

#### MECO

MECO is a distribution utility granted by the NEC under Presidential Decree No. 269, a franchise for 25 years from October 10, 1991 to engage in, conduct and carry on the business of generating, buying and selling electric light, heat and power for sale within the limits of the City of Lapu-lapu and the Municipality of Cordova, Cebu until October 9, 2016. On July 17, 2016, MECO was granted a renewal of its franchise for another 25 years.

