

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

| | 2019 | 2018 | 2017 |
|--|-----------------------|----------------|----------------|
| Current assets | ₱2,538,137,993 | ₱2,655,644,061 | ₱2,539,970,643 |
| Noncurrent assets | 3,793,357,353 | 2,903,998,249 | 2,135,870,438 |
| Current liabilities | 993,387,990 | 932,821,162 | 699,418,468 |
| Noncurrent liabilities | 2,522,682,101 | 2,348,278,665 | 1,799,843,043 |
| Equity | 2,815,425,255 | 2,278,542,483 | 2,176,579,570 |
| Revaluation increment on property, plant and equipment, and others (adjusted at consolidated level following the Group's policy of cost model) | 467,786,406 | 188,241,004 | 209,371,063 |
| Revenue | 6,651,213,663 | 6,350,888,911 | 5,432,571,239 |
| Gross profit | 442,284,044 | 338,144,507 | 316,827,449 |
| Net income | 441,331,201 | 292,053,994 | 250,336,245 |
| Other comprehensive loss | (332,628) | 1,678,140 | (479,591) |
| Income after adjustment of depreciation on appraisal increase and others | 467,669,998 | 322,239,793 | 280,522,042 |
| Group's share in net income after adjustment of depreciation on appraisal increase and others | 187,067,999 | 128,895,917 | 112,208,817 |
| Carrying amount of the investment | 939,386,098 | 836,451,057 | 786,883,795 |
| Dividends received from MECO | 83,999,906 | 79,999,911 | 59,999,933 |

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

As of December 31, 2019, 2018 and 2017, the Group's share in the net assets of MECO approximates the carrying value of its investment amounting to ₱939.4 million, ₱836.5 million and ₱786.9 million, respectively.

SWRI

SWRI is incorporated to engage in the business of providing water services for the operation, maintenance, refurbishment and expansion of power production and electrical generating facilities, including supply of water for the operation of said facilities. As of December 31, 2019, SWRI has not yet started operations.



11. Property, Plant and Equipment

| | 2019 | | | | | | | | | |
|--|------|--|--|-------------------------------|----------------|------------|--------------------------------|------|--------------------------|-----------------------------------|
| | Cost | Distribution Lines, Poles and Fixtures | Power Transformers, Switches and Devices | Plant Machinery and Equipment | Motor Vehicles | Structures | Furniture and Office Equipment | Land | Construction in Progress | Right-of-use Assets (see Note 30) |
| At January 1, as previously reported | | | | | | | | | | |
| Effect of adoption of PFRS 16 | | | | | | | | | | |
| At January 1 as restated | | | | | | | | | | |
| Additions | | | | | | | | | | |
| Transfers | | | | | | | | | | |
| Retirements | | | | | | | | | | |
| Transfer from noncurrent assets held for sale | | | | | | | | | | |
| At December 31 | | | | | | | | | | |
| Accumulated Depreciation and Impairment | | | | | | | | | | |
| At January 1, as previously reported | | | | | | | | | | |
| Adjustment due to adoption of PIC Q&A No. 2019-12 and No. 2019-13 (see Note 2) | | | | | | | | | | |
| At January 1, as restated | | | | | | | | | | |
| Depreciation (see Note 22) | | | | | | | | | | |
| Retirements | | | | | | | | | | |
| At December 31 | | | | | | | | | | |
| Net Book Value | | | | | | | | | | |
| At January 1 | | | | | | | | | | |
| Additions | | | | | | | | | | |
| Transfers | | | | | | | | | | |
| Transfer to noncurrent assets held for sale | | | | | | | | | | |
| Disposals | | | | | | | | | | |
| At December 31 | | | | | | | | | | |
| Accumulated Depreciation and Impairment | | | | | | | | | | |
| At January 1 | | | | | | | | | | |
| Depreciation (see Note 22) | | | | | | | | | | |
| Impairment (see Note 20) | | | | | | | | | | |
| Other adjustments | | | | | | | | | | |
| Transfer to noncurrent assets held for sale | | | | | | | | | | |
| Disposals | | | | | | | | | | |
| At December 31 | | | | | | | | | | |
| Net Book Value | | | | | | | | | | |

| | 2018 | | | | | | | | | |
|---|------|--|--|-------------------------------|----------------|------------|--------------------------------|------|--------------------------|---------------------|
| | Cost | Distribution Lines, Poles and Fixtures | Power Transformers, Switches and Devices | Plant Machinery and Equipment | Motor Vehicles | Structures | Furniture and Office Equipment | Land | Construction in Progress | Right-of-use Assets |
| At January 1 | | | | | | | | | | |
| Additions | | | | | | | | | | |
| Transfers | | | | | | | | | | |
| Transfer to noncurrent assets held for sale | | | | | | | | | | |
| Disposals | | | | | | | | | | |
| At December 31 | | | | | | | | | | |
| Accumulated Depreciation and Impairment | | | | | | | | | | |
| At January 1 | | | | | | | | | | |
| Depreciation (see Note 22) | | | | | | | | | | |
| Impairment (see Note 20) | | | | | | | | | | |
| Other adjustments | | | | | | | | | | |
| Transfer to noncurrent assets held for sale | | | | | | | | | | |
| Disposals | | | | | | | | | | |
| At December 31 | | | | | | | | | | |
| Net Book Value | | | | | | | | | | |



Acquisition and Rehabilitation of Power Barge (PB) 104

On June 30, 2016, PSALM turned over the 32 MW PB 104 to the Parent Company for rehabilitation. Units 1, 2 and 3 with total rated capacity of 24 MW started commercial operations on August 1, 2018, followed by Unit 4 (8 MW) on June 11, 2019. Total acquisition and rehabilitation costs capitalized to "Property, plant and equipment" in the consolidated statement of financial position amounted to ₱450.5 million and ₱402.5 million under "Plant machinery and equipment" as of December 31, 2019 and 2018, respectively.

Noncurrent Assets Held for Sale

On its resolution dated May 23, 2018, the BOD announced its decision to sell group of assets, including machineries and equipment, and spare parts inventories. In March 2019, the Group engaged the services of an appraiser to determine the disposal group's fair value less cost to sell as follows:

| | Carrying Amount at Reporting Date Before Reclassified as Held for Sale | Impairment Losses (see Note 20) | Carrying Amount After Impairment Losses* |
|---------------------------|--|------------------------------------|--|
| Machineries and equipment | ₱32,479,380 | ₱14,266,830 | ₱18,213,000 |
| Inventories | — | — | — |
| | ₱32,479,380 | ₱14,266,830 | ₱18,213,000 |

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

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

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

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

The ARO related to the disposal group has been remeasured to ₱2.2 million as of December 31, 2018, resulting to reversal of ARO amounting to ₱21.3 million in 2018 (see Note 16). The ARO is presented as "Liabilities directly associated with noncurrent assets held for sale" in the consolidated statement of financial position as of December 31, 2018 (see Note 16).

In 2019, the Parent Company sold the noncurrent asset held for sale with carrying amount of ₱14.4 million, net of the liability directly associated with the noncurrent asset held for sale, for ₱7.1 million. The sale resulted to a loss amounting to ₱7.3 million and is recorded under "Others - net" in the consolidated statement of comprehensive income. The Parent Company transferred the remaining amount of ₱1.6 million to property, plant and equipment.

The cost of fully depreciated property, plant and equipment that are still being used by the Group amounted to ₱388.3 million and ₱373.4 million as of December 31, 2019 and 2018, respectively.



12. Other Noncurrent Assets

This account consists of:

| | 2019 | 2018 |
|---|---------------------|--------------|
| PSALM deferred adjustments (see Notes 7 and 29) | ₱145,967,292 | ₱182,765,769 |
| Goodwill (see Note 13) | 32,522,016 | 32,522,016 |
| Advances to a suppliers and contractors | 11,208,890 | — |
| Investment in proprietary club shares | 7,300,000 | 6,500,000 |
| Noncurrent portion of prepaid rent (see Notes 9 and 29) | — | 5,265,394 |
| Software costs (net of accumulated amortization of ₱2.4 million and ₱1.8 million as of 2019 and 2018, respectively) | 3,649,508 | 4,257,760 |
| Franchise (net of accumulated amortization of ₱9.1 million and ₱8.6 million as of 2019 and 2018, respectively) | 2,864,601 | 3,342,034 |
| Others | 11,701,024 | 9,962,621 |
| | ₱215,213,331 | ₱244,615,594 |

Current portion of PSALM deferred adjustments amounting to ₱36.8 million is presented under “Trade and other receivables” in the consolidated statement of financial position as of December 31, 2019 and 2018 (see Note 7).

In 2019, the Parent Company entered into an agreement with suppliers and contractors to purchase turbochargers for its Power Barge (PB) 104. Total significant contract price amounted to ₱19.1 million. As of December 31, 2019, advances to suppliers and contractors amounted to ₱11.2 million. These pertain to the down payments for the turbochargers which will be recouped and applied against future billings of the suppliers and contractors.

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

Noncurrent portion of prepaid rent pertains to unamortized advance payments of lease rentals in relation to the Parent Company and SIPC’s LLAs with PSALM (see Note 30). Upon adoption of PFRS 16, prepaid rent amounting to ₱5.3 million as of January 1, 2019 under PAS 17 was derecognized (see Notes 2 and 30).

Franchise pertains to the costs incurred by BLCI to acquire the franchise to operate the Bohol Provincial Electric System which is amortized over 25 years.

Others mainly represent deferred input taxes on capital goods and project development costs for future projects.



13. Goodwill

Goodwill acquired through business combinations have been allocated to a single cash-generating unit composing the distribution business, which is a reportable segment. The recoverable amount of each unit has been determined based on a value-in-use calculation using cash flow projections based on financial budgets approved by senior management covering a five-year period.

Carrying amount of goodwill related to BLCI amounted to ₱32.5 million as of December 31, 2019 and 2018. The goodwill is attributed to the expected synergies and other benefits from combining the assets of the distribution utility with those of the Group.

The following describes each key assumption on which management has based its cash flow projections to undertake impairment testing of goodwill:

- Interest rate used to discount the net cash flows from operations is BLCI's WACC of 14.97% as of December 31, 2019 and 2018 using the capital asset pricing model.
- Energy sold is projected at 4% to 7% annual growth based on the actual average for 2019 and 2018, depending on the customer category.
- Operating expenses are projected to increase from 5% to 7% depending on the nature of expenses.
- The computation of terminal value assumes no growth in projected cash flows beyond five years.

Based on the impairment testing, management believes there is no impairment on goodwill in 2019 and 2018.

Sensitivity to Changes in Assumptions

With regard to the assessment of value-in-use of BLCI, management believes that no reasonably possible change in any of the above key assumptions would cause the carrying value of the goodwill to materially exceed its recoverable amount.

14. Trade and Other Payables

| | 2019 | 2018 |
|--------------------------------|---------------------|--------------|
| Trade (see Note 24) | ₱265,899,626 | ₱261,163,452 |
| Nontrade (see Note 29) | 150,843,825 | 164,449,765 |
| Accrued expenses (see Note 15) | 69,304,542 | 64,371,364 |
| | ₱486,047,993 | ₱489,984,581 |

Trade payables include purchases of goods and services that are noninterest-bearing and are normally settled on 30–60 day terms.

Nontrade payables include accrual for deferred output VAT of ₱95.4 million and ₱85.7 million as of December 31, 2019 and 2018, respectively; current portion of PSALM deferred adjustments of ₱36.8 million as of December 31, 2019 and 2018 (see Note 29); and various accounts with nontrade suppliers and contractors.



Accrued expenses include accrual of power cost, accrual of interest on customers' deposits and other statutory liabilities.

15. Customers' Deposits

| | 2019 | 2018 |
|-------------------|---------------------|---------------------|
| Bill deposits | ₱96,843,836 | ₱87,000,075 |
| Material deposits | 52,252,555 | 45,093,433 |
| | ₱149,096,391 | ₱132,093,513 |

Bill Deposits

Bill deposits are obtained from customers and maintained at approximately equivalent to one month consumption principally as guarantee for any uncollected bills upon termination of the service contract. Under the Magna Carta for Residential Electricity Consumers (Magna Carta) as amended and Distribution Service and Open Access Rules (DSOAR) as amended, dated November 15, 2010 and February 22, 2010, respectively, bill deposits shall earn interest equivalent to the peso savings account interest rate of Land Bank of the Philippines or other government banks subject to the approval of the ERC and the same shall be credited yearly to the bills of the registered customer.

The Magna Carta and DSOAR also provide that bill deposits, together with accrued interests, shall be refunded within one month from the termination of the services if all bills have been paid. In addition to this, the customer who has paid his electric bills on or before its due date for three consecutive years may demand for the full refund of the deposit even prior to the termination of the service.

In cases where the customer has previously received the refund of his bill deposit pursuant to Article 7 of the Magna Carta, and later defaults in the payment of his monthly bills, the customer shall be required to post another bill deposit with the distribution utility and lose his right to avail of the right to refund his bill deposit in the future until termination of service. Failure to pay the required bill deposit shall be a ground for disconnection of electric service.

Material Deposits

Large load consumers applying for power connection may pay for the transformers and poles in advance. This is subject to a refund which can be applied as a reduction from the accounts of the consumers at 25% of the consumers' monthly billing for deposits prior to June 2010 and 75% of the consumers' monthly billing from June 2010 onwards until such amounts are fully refunded or for five years, whichever period is shorter.

Interest on Bill Deposits

The implementing guidelines of the Magna Carta provide that the interest rate then on meter deposits shall be at 6% for contracts of service entered into prior to the effectivity of the then Energy Regulatory Board (ERB) Resolution No. 95-21 issued on August 3, 1995. The ERB Resolution No. 95-21 was issued adopting a 10% interest on customers' deposits. Pursuant to the Magna Carta as amended, bill deposits shall earn interest equivalent to the peso savings account interest rate of Land Bank of the Philippines or other government banks subject to the approval of the ERC. In the case of non-residential customers, the DSOAR, as amended provides that BLCI shall pay interest on bill deposits at the rate equivalent to the peso savings account interest rate of Land Bank of the Philippines or other government banks subject to the approval of the ERC. Interest expense on bill deposits amounting to ₱0.09 million, ₱0.2 million and ₱0.2 million in 2019, 2018 and 2017, respectively, are presented as part of "Interest expense" in the consolidated statements of comprehensive income. Outstanding interest expense accrued on bill deposits amounted to



₱2.7 million as of December 31, 2019 and 2018 and are presented as part of "Accrued expenses" under "Trade and other payables" in the consolidated statements of financial position (see Note 14).

16. Asset Retirement Obligation

The Parent Company and SIPC have contractual obligations under the LLA with PSALM and the Environmental Compliance Certificate issued by the Department of Environment and Natural Resources to dismantle installed assets and restore the leased premises to their original condition at the end of the lease term. In this regard, the Parent Company and SIPC established an obligation to recognize its estimated liability for asset retirement.

The Parent Company and SIPC also have an option under the LLA to purchase optioned assets within the lease premises that may be offered by the Lessor.

The movement of the asset retirement obligation follows:

| | 2019 | 2018 |
|---|-------------|--------------|
| At January 1 | ₱60,975,535 | ₱97,198,403 |
| Accretion of interest | 4,640,223 | 5,130,253 |
| Changes in ARO (see Notes 11 and 29) | 15,814,639 | (39,119,121) |
| Transfer to liabilities directly associated with noncurrent assets held for sale (see Note 11) | - | (2,234,000) |
| At December 31 | ₱81,430,397 | ₱60,975,535 |

In 2017, SIPC has exercised its option to purchase the optioned assets covering all the lots underlying the BDPP with a total area of 27,527 square meters (see Note 29). As a result of the purchase, the ARO recognized for BDPP amounting to ₱21.1 million was reversed in 2017.

Changes in ARO in 2018 represents: (i) the reversal of the Parent Company's ARO amounting to ₱21.3 million as a result of re-measuring it being part of the disposal group held for sale (see Note 11) and (ii) reversal of SIPC's ARO amounting to ₱17.8 million to reflect changes in the assumptions used based on the current best estimates.

Changes in ARO in 2019 represents additional ARO amounting to ₱15.8 million to reflect changes in the assumptions used based on the current best estimates.

As of December 31, 2019, and 2018, estimates for SIPC's ARO are projected using inflation rates ranging from 3.00% to 3.40% and 3.40% to 5.20%, and discounted using a risk-free rate of 4.97% and 7.61%, respectively.

The actual dismantlement and restoration cost could vary substantially from the above estimate because of new regulatory requirements, changes in technology, increased cost of labor, materials, and equipment and/or actual time required to complete all dismantlement and removal activities.



17. Pension Plan

Under the existing regulatory framework, Republic Act No. 7641, *The Retirement Pay Law*, requires a provision for retirement pay to qualified private sector employees in the absence of any retirement plan in the entity, provided, however, that the employees' retirement benefits under any collective bargaining and other agreements shall not be less than those provided under the law. The law does not require minimum funding of the plan.

The Parent Company has a funded defined benefit pension plan covering substantially all of its employees which require contributions to be made to a separately administered fund, while SIPC and BLCI have unfunded, noncontributory, defined benefit pension plans covering substantially all of its regular and permanent employees.

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

The components of pension expense recognized under "Plant operations" and "General and administrative" in the consolidated statements of comprehensive income follow:

| | 2019 | 2018 |
|-------------------------------------|-------------------|------------|
| Current service cost | ₱3,926,513 | ₱3,708,435 |
| Interest cost on benefit obligation | 1,019,967 | 1,082,822 |
| | ₱4,946,480 | ₱4,791,257 |

Remeasurement effects recognized under "Other comprehensive income" in the consolidated statements of comprehensive income amounted to ₱6.0 million and ₱4.2 million in 2019 and 2018, respectively.

Net pension asset follows:

| | 2019 | 2018 |
|---|-----------|-------------|
| Fair value of plan assets | ₱— | ₱18,803,054 |
| Present value of defined benefit obligation | — | 17,395,127 |
| | ₱— | ₱1,407,927 |

Net pension liabilities follow:

| | 2019 | 2018 |
|---|--------------------|-------------|
| Present value of defined benefit obligation | ₱50,452,184 | ₱18,472,143 |
| Fair value of plan assets | 24,022,023 | — |
| | ₱26,430,161 | ₱18,472,143 |



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

| | 2019 | 2018 |
|------------------------------------|--------------------|--------------------|
| At January 1 | ₱35,867,270 | ₱32,646,992 |
| Current service cost | 3,926,513 | 3,708,435 |
| Interest cost | 2,091,741 | 1,797,580 |
| Benefits paid | (374,359) | (2,285,737) |
| Remeasurement loss due to: | | |
| Experience adjustments | 4,365,867 | — |
| Changes in demographic assumptions | 1,801,557 | — |
| Changes in financial assumptions | 2,773,595 | — |
| At December 31 | ₱50,452,184 | ₱35,867,270 |

Changes in the fair value of plan assets follow:

| | 2019 | 2018 |
|---|--------------------|--------------------|
| At January 1 | ₱18,803,054 | ₱12,539,614 |
| Contributions to the retirement fund | 1,306,670 | 1,336,585 |
| Interest income included in net interest cost | 1,071,774 | 714,758 |
| Benefits paid | (134,772) | — |
| Gains on return on plan assets | 2,975,297 | 4,212,097 |
| At December 31 | ₱24,022,023 | ₱18,803,054 |

Changes in the amounts recognized in the consolidated statements of financial position for net pension liabilities follows:

| | 2019 | 2018 |
|-------------------------------------|--------------------|--------------------|
| At January 1 | ₱17,064,216 | ₱20,107,378 |
| Pension expense | 4,946,480 | 4,791,257 |
| Remeasurement (gain) loss | 5,965,722 | (4,212,097) |
| Benefits paid | (239,587) | (2,285,737) |
| Contribution to the retirement fund | (1,306,670) | (1,336,585) |
| At December 31 | ₱26,430,161 | ₱17,064,216 |

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

| | 2019 | 2018 |
|---------------------------------------|--------------------|--------------------|
| Cash and cash equivalents | ₱2,615,810 | ₱2,531,315 |
| Investments in government securities | 18,975,270 | 13,840,069 |
| Investment in bonds | 1,500,000 | 1,500,000 |
| Investment in listed preferred shares | 761,250 | 760,743 |
| Accrued interest income and others | 191,236 | 193,329 |
| Total assets | 24,043,566 | 18,825,456 |
| Total liabilities | 21,543 | 22,402 |
| Fair value of plan assets | ₱24,022,023 | ₱18,803,054 |

The Parent Company does not expect to contribute to the retirement fund in 2020.



The principal assumptions used in determining pension benefit obligation for the Group's plans as of December 31 are shown below:

| | 2019 | 2018 |
|------------------------|------------|------------|
| Discount rate | 4.90–5.03% | 5.70–6.06% |
| Future salary increase | 5.00–6.00% | 5.00–6.00% |

The sensitivity analysis below has been determined based on reasonably possible changes of each significant assumption on the present value of the defined benefit obligation of the most recent actuarial valuation report, as of December 31, 2019 and 2018, assuming all other assumptions were held constant:

| | Increase (Decrease) | Present Value Change of Defined Benefit Obligation | |
|-----------------------------|------------------------|---|---------------|
| | | 2019 | 2018 |
| Discount rate | +100 basis points | (P3,058,767) | (P11,185,737) |
| | –100 basis points | 3,589,071 | 3,503,090 |
| Future salary increase rate | +100 basis points | 3,733,831 | 3,407,105 |
| | –100 basis points | (3,249,560) | (1,668,806) |

The weighted average duration of the benefit payments ranges from 15.57 to 20.75 years and 11.50 to 20.06 years as of December 31, 2019 and 2018, respectively. The expected benefit payment assumes that all actuarial assumptions will materialize. Shown below is the maturity analysis of the undiscounted benefit payments as of December 31:

| Plan Year | 2019 | 2018 |
|----------------------------------|---------------------|---------------------|
| Less than one year | P17,789,680 | P11,336,977 |
| One year to less than five years | 18,263,596 | 12,410,357 |
| Five years to less than 10 years | 19,317,782 | 15,636,024 |
| 10 years to less than 15 years | 24,823,145 | 17,271,390 |
| 15 years to less than 20 years | 24,470,161 | 14,784,727 |
| 20 years and above | 113,705,704 | 58,900,356 |
| | P218,370,068 | P130,339,831 |

18. Equity

Capital Stock

There were no changes in the Parent Company's authorized, issued and outstanding common shares as of December 31, 2019 and 2018:

| | |
|-------------------------------|----------------------|
| Issued shares | 1,569,491,900 |
| Treasury shares | 72,940,097 |
| Issued and outstanding shares | <u>1,496,551,803</u> |



On various dates in 2002 and 2012, the Parent Company registered with SEC its 1,569,491,900 common shares that were offered to the public at an issue price of ₱1.80 per share. Gross proceeds from this issuance of new shares amounted to ₱2.8 billion. As of December 31, 2019, the Parent Company has 775 stockholders including 82 depository participants counted as one stockholder each.

As of December 31, 2019 and 2018, the Parent Company complied with the Minimum Public Ownership requirement of the PSE for listed entities.

Retained Earnings

Retained earnings are also restricted for dividend declaration to the extent of the accumulated equity in net earnings of associates amounting to ₱3.1 billion and ₱3.2 billion as of December 31, 2019 and 2018, respectively, until actually declared by the associates. It is further restricted for dividend declaration to the extent of the acquisition price of the treasury shares amounting to ₱131.0 million as of December 31, 2019 and 2018.

Upon adoption of PFRS 16 effective January 1, 2019, the Group recognized transition adjustments of ₱0.3 million directly charged to the Group's beginning retained earnings in the consolidated statement of changes in equity (see Note 2).

Appropriation

On November 20, 2017, the Board of Directors (BOD) of the Parent Company approved the following: (i) reversal of retained earnings appropriated on November 24, 2015 amounting to ₱400.0 million due to the full prepayment of the related long-term debt on October 28, 2017 and the reinstatement of the same amount as unappropriated retained earnings; (ii) retention of retained earnings appropriated on March 30, 2016 amounting to ₱850.0 for the construction of a CFBC coal-fired thermal power plant with a capacity of at least 300 MW in the province of Cebu or Visayas within the years 2018-2020; and (iii) appropriation of ₱500.0 million out of the unappropriated retained earnings of the Parent Company for the construction of two run-of-river hydro-electric power plant projects in Palawan with a capacity of 15.8 MW to commence within the years 2018-2019.

On November 28, 2018, the BOD of the Parent Company approved the following: (i) reversal of ₱850.0 million appropriation for the construction of a CFBC coal-fired thermal power plant with a capacity of at least 300 MW due to the adverse Supreme Court decision that led to the return of the Naga Power Plant Complex to PSALM pursuant to a Memorandum of Agreement and Certificate of Turnover executed between the Parent Company and PSALM on July 9, 2018 and July 13, 2018, respectively (see Note 29); (ii) reversal of ₱500.0 million appropriation for two run-of-river hydro-electric power plant projects in Palawan due to unsuccessful conclusion of final studies/negotiations; and (iii) appropriation of ₱1.5 billion out of the unappropriated retained earnings of the Parent Company for the acquisition of a 100% ownership interest in a power generation company and for 1Bohol Power Project that will serve the long-term power requirements of three distribution utilities in Bohol within the years 2024-2033.

In January 2019, the Parent Company lost in its bid to acquire the power generation company. Consequently, on April 4, 2019, the Board of Directors of the Parent Company approved the reversal of a portion of its 2018 appropriation amounting to ₱1.0 billion.



On November 25, 2019, the BOD of the Parent Company approved the following: (i) appropriation of retained earnings amounting to ₱1.3 billion for the construction and operation of new generating power plant capacity to supply 39 MW full demand requirements in the mainland of Occidental Mindoro starting May 25, 2022 and (ii) appropriation of retained earnings amounting to ₱1.0 billion to invest in SPC Island Power Corporation for the 44.2 MW expansion of Bohol Diesel Power Plant in the years 2020-2021. The BOD further confirmed the 2018 appropriation of retained earnings amounting to ₱500.0 million for IBohol Power Project that will serve the long-term power requirements of three distribution utilities in Bohol starting December 26, 2023.

Dividends

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

| Declared By | Date of Declaration | Record Date | Amount | |
|-------------|---------------------|-------------------|---------------------|---------------|
| | | | Gross (in millions) | Per Share |
| 2019 | | | | |
| SPC | April 4, 2019 | April 12, 2019 | ₱598.6 | ₱0.40 |
| | November 25, 2019 | December 10, 2019 | 1,047.6 | 0.70 |
| SIPC | November 25, 2019 | December 10, 2019 | 350.0 | 14.0 (common) |
| BLCI | July 13, 2019 | July 22, 2019 | 22.5 | 0.30 |
| | November 20, 2019 | November 30, 2019 | 15.0 | 0.20 |
| SECI | October 4, 2019 | October 7, 2019 | 14.0 | 0.74 |
| 2018 | | | | |
| SPC | May 23, 2018 | June 11, 2018 | ₱598.6 | ₱0.40 |
| | November 23, 2018 | December 12, 2018 | 598.6 | 0.40 |
| SIPC | November 23, 2018 | December 12, 2018 | 350.0 | 14.0 (common) |
| SLCI | April 3, 2018 | December 20, 2018 | 40.0 | 1.27 |
| BLCI | April 12, 2018 | April 16, 2018 | 30.0 | 0.40 |
| | December 10, 2018 | December 14, 2018 | 10.0 | 0.13 |
| SECI | April 3, 2018 | December 20, 2018 | 14.0 | 0.74 |
| 2017 | | | | |
| SPC | May 30, 2017 | June 14, 2017 | 598.6 | 0.40 |
| | November 20, 2017 | December 6, 2017 | 598.6 | 0.40 |
| SIPC | November 20, 2017 | December 6, 2017 | 700.0 | 23.0 (common) |
| SLCI | November 20, 2017 | December 6, 2017 | 5.0 | 0.1536 |
| BLCI | August 8, 2017 | August 15, 2017 | 15.0 | 0.20 |
| | December 6, 2017 | December 15, 2017 | 22.5 | 0.30 |
| SECI | November 20, 2017 | December 6, 2017 | 20.0 | 1.0574 |
| SMPC | November 20, 2017 | December 6, 2017 | 3.65 | 14.60 |

As of December 31, 2019 and 2018, outstanding dividends payable amounted to nil and ₱0.8 million, respectively (see Note 31).

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



Non-controlling Interest

As of December 31, 2019 and 2018, the Group has 53.66% direct and indirect ownership interest in BLCI which is primarily engaged in the business of supply and distribution of electricity in the area presently comprised by Tagbilaran City, Bohol. The summarized financial information of BLCI as of December 31 is provided below:

| | 2019 | 2018 |
|---|----------------------|---------------|
| Statements of financial position: | | |
| Current assets | ₱414,327,928 | ₱362,673,926 |
| Noncurrent assets | 355,715,993 | 386,003,738 |
| Current liabilities | 218,810,018 | 211,876,511 |
| Noncurrent liabilities | 304,620,107 | 321,050,473 |
| Equity | 246,613,796 | 215,750,680 |
| Statements of comprehensive income: | | |
| Revenue | 1,194,092,629 | 1,083,337,673 |
| Costs and expenses | 1,122,654,544 | 1,039,172,158 |
| Net income | 69,375,176 | 46,903,901 |
| Total comprehensive income | 68,831,653 | 46,903,901 |
| Net income attributable to non-controlling interest | 32,148,457 | 21,735,268 |
| Total comprehensive income attributable to non-controlling interest | 31,896,588 | 21,735,268 |
| Accumulated non-controlling interest | 114,280,833 | 99,978,865 |

Upon adoption of PFRS 16 effective January 1, 2019, the Group recognized transition adjustments of ₱0.2 million directly charged to the Group's beginning non-controlling interests in the consolidated statement of changes in equity (see Note 2).

As of December 31, 2019 and 2018, total non-controlling interest amounted to ₱156.4 million and ₱146.5 million, respectively.

Capital Management

The Group manages its capital structure and makes adjustments to it in the light of changes in economic conditions. To maintain or adjust the capital structure, the Group may adjust the dividend payment to stockholders, return capital to stockholders or issue new shares. No changes were made in the objectives, policies or processes during the years ended December 31, 2019 and 2018.

The Group considers its total equity attributable to equity holders of the Parent, excluding other comprehensive income, as its core capital and is not subject to any externally imposed capital requirements. As of December 31, 2019 and 2018, the Group's core capital amounted as follows:

| | 2019 | 2018 |
|----------------------------|------------------------|----------------|
| Capital stock | ₱1,569,491,900 | ₱1,569,491,900 |
| Additional paid-in capital | 86,810,752 | 86,810,752 |
| Retained earnings | 8,477,177,016 | 8,341,355,868 |
| Treasury stock | (131,008,174) | (131,008,174) |
| | ₱10,002,471,494 | ₱9,866,650,346 |



19. Plant Operations

| | 2019 | 2018 | 2017 |
|---|-----------------------|----------------|----------------|
| Purchased power (see Notes 5 and 24) | ₱1,071,712,398 | ₱992,017,735 | ₱824,759,636 |
| Fuel, lubricants and chemicals (see Note 8) | 686,048,510 | 534,664,530 | 653,021,718 |
| Personnel costs (see Note 21) | 103,359,488 | 89,665,534 | 91,082,912 |
| Depreciation and amortization (see Note 22) | 102,962,436 | 86,693,131 | 76,447,813 |
| Spares, materials and supplies (see Note 8) | 55,402,332 | 49,231,712 | 44,771,908 |
| Repairs and maintenance | 19,006,609 | 26,176,169 | 15,914,310 |
| Others (see Note 24) | 70,032,631 | 31,043,678 | 29,572,936 |
| | ₱2,108,524,404 | ₱1,809,497,439 | ₱1,735,571,233 |

Others include real property tax on plant machinery and equipment of PDPP from 2010 to 2019 based on new tax declarations per Local Board of Assessment Appeals (LBAA) order received on December 19, 2019.

20. General and Administrative Expenses

| | 2019 | 2018 | 2017 |
|---|---------------------|--------------|--------------|
| Business development | ₱56,429,402 | ₱37,471,927 | ₱27,519,729 |
| Taxes, licenses and regulatory charges | 49,641,823 | 10,807,311 | 8,977,629 |
| Personnel costs (see Note 21) | 47,381,181 | 42,192,202 | 50,214,568 |
| Professional fees | 18,311,593 | 15,620,611 | 13,000,590 |
| Directors' fees | 16,219,664 | 16,456,381 | 15,451,969 |
| Insurance | 14,710,033 | 12,944,046 | 7,936,556 |
| Shared expenses | 13,900,005 | 13,257,495 | 13,539,434 |
| Transportation and travel | 10,004,043 | 13,581,231 | 8,301,520 |
| Repairs and maintenance | 9,082,449 | 7,573,599 | 3,909,747 |
| Depreciation and amortization (see Note 22) | 8,146,756 | 3,831,121 | 3,235,371 |
| Freight and handling | 4,374,339 | 473,506 | 472,026 |
| Communications | 3,963,376 | 4,365,480 | 3,576,133 |
| Power and water | 3,285,614 | 3,328,988 | 2,661,134 |
| Corporate social responsibility | 3,024,689 | 9,389,299 | 1,745,645 |
| Office supplies | 2,786,808 | 2,763,396 | 2,632,006 |
| Janitorial and security | 2,275,277 | 1,828,939 | 1,771,602 |
| Association dues | 1,824,828 | 1,874,423 | 1,857,594 |
| Entertainment, amusement and recreation | 1,818,542 | 2,777,872 | 1,549,041 |
| Rentals (see Notes 5 and 29) | 1,649,624 | 6,353,282 | 6,660,922 |
| Provisions (see Notes 7, 8 and 11) | 853,062 | 23,475,982 | 6,954,697 |
| Supervision and regulation | 750,000 | 750,000 | 750,000 |
| Trainings and seminars | 495,968 | 575,727 | 342,595 |
| Brokerage fees | — | 152,634 | 146,063 |
| Others | 6,455,466 | 7,622,449 | 5,577,215 |
| | ₱277,384,547 | ₱239,467,901 | ₱188,783,786 |

Provisions include provision for credit and impairment losses, inventory losses and impairment of machineries and equipment (see Notes 7, 8 and 11).

Taxes, licenses and regulatory charges in 2019 include settlement of previous years' assessments amounting to ₱32.4 million as well as additional property taxes amounting to ₱5.7 million on buildings and structures of PDPP from 2010 to 2019 based on new tax declarations per LBAA order received on December 19, 2019.



21. Personnel Costs

| | 2019 | 2018 | 2017 |
|--------------------------|---------------------|--------------|--------------|
| Salaries and wages | ₱105,432,746 | ₱91,304,401 | ₱82,455,364 |
| Retirement (see Note 17) | 4,946,480 | 4,791,257 | 15,121,645 |
| Other employee benefits | 40,361,443 | 35,762,073 | 43,720,471 |
| | ₱150,740,669 | ₱131,857,736 | ₱141,297,480 |

22. Depreciation and Amortization

| | 2019 | 2018 | 2017 |
|--|---------------------|-------------|-------------|
| Depreciation of property, plant and equipment (see Notes 11 and 30): | | | |
| Plant operations (see Note 19) | ₱102,485,003 | ₱86,215,698 | ₱75,970,330 |
| General and administrative (see Note 20) | 7,538,505 | 2,736,305 | 2,348,079 |
| | 110,023,508 | 88,972,003 | 78,318,459 |
| Amortization of franchise: | | | |
| Plant operations (see Note 19) | 477,433 | 477,433 | 477,433 |
| Amortization of software costs: | | | |
| General and administrative (see Note 20) | 608,251 | 608,251 | 608,251 |
| Amortization of prepaid rent: | | | |
| General and administrative (see Note 20) | — | 466,565 | 279,041 |
| | ₱111,109,192 | ₱90,524,252 | ₱79,633,134 |

23. Unbundling of Rates

Unbundling of Electricity Bill

In compliance with EPIRA, BLCI started to bill its customers using the final unbundled rates approved by the ERC in May 2008 per ERC decision dated March 27, 2008. The Uniform Rate Filing Requirements (UFR) on the rate unbundling released by the ERC on October 30, 2001 specified that BLCI billing will have the following components: Generation Charge, Transmission Charge, System Loss Charge, Distribution Charge, Supply Charge, Metering Charge, and Interclass and Lifeline Subsidies. Local Franchise Taxes, the Power Act Reduction (PAR, for Residential Customers) and the Universal Charge are also separately indicated in the customer's billing statements. The Universal Charges, which are billed and collected merely on behalf of the national government agency, do not form part of BLCI's revenues.



The components of the unbundled bill presented below pertain only to those with recovery mechanism.

| Unbundled Bill Component | Mechanism |
|------------------------------------|---|
| Generation and System Loss Charges | <ul style="list-style-type: none"> Guidelines for the Automatic Adjustment of Generation Rates and System Loss Rates by Distribution Utilities (DU), as Amended (AGRA) |
| Transmission Charge | <ul style="list-style-type: none"> Guidelines for the Adjustment of Transmission Rates by DU (TRAM) Rules for Calculation of the Over or Under Recovery in the Implementation of Transmission Rates and the Corresponding System Loss Rates by DU |
| Inter-class Subsidy | <ul style="list-style-type: none"> Guidelines for a "True-Up" Mechanism of the Over or Under Recovery in the Implementation of Inter-class Cross Subsidy Removal by DU |
| Lifeline Rate/Subsidy | <ul style="list-style-type: none"> Guidelines for the Calculation of the Over or Under Recovery in the Implementation of Lifeline Rates by DU |

For the years ended December 31, 2019, 2018 and 2017, BLCI's revenue from distribution of power amounted to ₱1,194.1 million, ₱1,083.3 million and ₱914.3 million, respectively (see Note 26).

Implementation of VAT

With the enactment of R.A. No. 9337, the ERC issued on November 7, 2005 Resolution No. 20, Series of 2005 which prescribed the Guidelines for Implementing the Recovery of VAT and Other Provisions of R.A. No. 9337 affecting the Power Industry. R.A. No. 9337 removes the 2% national franchise tax but imposes a VAT on generation, transmission, distribution, and supply of electricity. Similar to the local franchise tax, the VAT is a separate item in the customers' bills. The 12% VAT is imposed on electricity consumptions starting February 1, 2006.

24. Significant Contracts

The Group has the following significant contracts:

Parent Company

On May 26, 2015, the Parent Company entered into an Ancillary Services Procurement Agreement (ASPA) with the National Grid Corporation of the Philippines (NGCP) that took effect on September 26, 2015 after getting the provisional approval of the ERC. The Parent Company and NGCP executed the ASPA for the supply of dispatchable reserve and reactive power support from its Cebu Diesel Power Plant located in the City of Naga, Cebu for a period of five (5) years under a non-firm arrangement. The ASPA was preterminated on July 13, 2018 due to the return of the Cebu Diesel Power Plant to PSALM (see Note 29).

On December 18, 2018, the Parent Company entered into an ASPA with NGCP for the supply of dispatchable reserve and reactive power support from the former's 4x7 MW Power Barge (PB) 104 located in Tapal Wharf, Ubay, Bohol under firm and non-firm arrangements. The term of this agreement is for a period of five (5) years commencing upon receipt of a final approval, or in the absence thereof, a provisional approval by the ERC of the application filed on February 14, 2019. The ASPA was implemented effective September 26, 2019.



SIPC

SIPC and NGCP entered into a Connection Agreement on August 28, 2010, in order for SIPC's generation facilities to remain connected to the transmission system of the NGCP and to continue to avail of the transmission services. This agreement is subject to the terms and conditions for the connection of the generation facility to the transmission system pursuant to the revised rules, terms and conditions for the provision of Open Access Transmission Service. Total transmission charges, lodged in "Others" under "Plant operations" amounted to ₱7.0 million, ₱8.2 million and ₱7.7 million in 2019, 2018 and 2017, respectively (see Note 19).

On April 18, 2013, SIPC entered into an ASPA with NGCP with provisional approval granted by the ERC on November 11, 2013. The ASPA, however, was made effective only on February 25, 2014 due to the impact of super typhoon Yolanda in November 2013. SIPC and NGCP executed the ASPA for the supply of contingency reserve, dispatchable reserve, reactive power support, and black start service from the Panay and Bohol Diesel Power Plants for a period of five (5) years under a non-firm arrangement. The agreement expired on February 25, 2019. Due to the necessity of extending the services of providing the same ancillary services, SIPC and NGCP have agreed per letter dated November 26, 2018 to extend the ASPA until a new ASPA for each power plant is approved by the ERC.

On November 20, 2018, SIPC entered into an ASPA with NGCP for the supply of dispatchable reserve and black start service under firm and non-firm arrangements, respectively, from SIPC's Bohol Diesel Power Plant. The term of this agreement is for a period of five (5) years commencing upon receipt of a final approval, or in the absence thereof, a provisional approval by the ERC. The ASPA was implemented effective April 26, 2019.

On July 3, 2019 and July 25, 2019, SIPC entered into an ASPA with NGCP for the supply of dispatchable reserve and contingency reserve under firm and non-firm arrangements from SIPC's Panay Diesel Power Plant. The term of this agreement is for a period of five (5) years commencing upon receipt of a final approval, or in the absence thereof, a provisional approval by the ERC. As of December 31, 2019, the ASPA is still for approval by ERC.

As of December 31, 2019, SIPC has power supply contracts with five distribution utilities (including three for approval by the ERC) for the supply of peaking power requirements with terms ranging from three to five years from effectivity of the contracts.

BLCI

On August 11, 2015, BLCI entered into a PSC with Unified Leyte Geothermal Energy, Inc. (ULGEI). Contract period is 6 years with an annual contract quantity of 67,452,000 kWh. ULGEI started to supply electricity to BLCI on August 26, 2015.

On March 22, 2013, the ERC provisionally approved the Power Sales Contract (PSC) between BLCI and KSPC that was executed on October 12, 2012. The contract period is 10 years with an annual contract quantity of 43,800,000 kWh. KSPC started its supply to BLCI on July 26, 2013. On June 29, 2015, ERC issued the final approval on the PSC between BLCI and KSPC with modification on the base price particularly on the fuel cost component.

Pursuant to Section 8 of R.A. No. 9136, the National Transmission Corporation (TransCo) was created and assumed the electrical transmission functions of the NPC. On November 13, 2006, BLCI and TransCo entered into a Transmission Service Agreement (TSA) to support the CSEE between BLCI and NPC. By virtue of R.A. No. 9511 dated December 1, 2008, the NGCP was granted a franchise to engage in the business of conveying or transmitting electricity through high



voltage backbone system of interconnected transmission lines, substations and related facilities and for other purposes. These activities were previously undertaken by TransCo.

The Wholesale Electricity Spot Market (WESM) started operation in the Visayas region on December 26, 2010. BLCI is registered with Philippine Electricity Market Corporation (PEMC)/Independent Electricity Market Operator of the Philippines, Inc. (IEMOP) as a direct WESM participant in order to avail of the opportunities in the competitive electricity market effective December 26, 2010.

Total power purchases from ULGEI, KSPC, NGCP and PEMC/IEMOP, net of discounts, amounted to ₱1,030.9 million, ₱934.1 million and ₱736.1 million in 2019, 2018 and 2017, respectively, and presented as "Purchased power" under "Plant operations" in the consolidated statements of comprehensive income (see Note 19).

The outstanding payables to ULGEI, KSPC, NGCP and PEMC/IEMOP included under "Trade and other payables" (see Note 14), on purchased power amounted to ₱102.5 million and ₱102.0 million as of December 31, 2019 and 2018, respectively.

25. Income Tax

| | 2019 | 2018 | 2017 |
|----------|---------------------|---------------------|---------------------|
| Current | ₱152,142,534 | ₱169,473,510 | ₱157,359,677 |
| Deferred | (3,613,760) | 5,146,406 | 368,847 |
| | ₱148,528,774 | ₱174,619,916 | ₱157,728,524 |

The reconciliation between the amounts of provision for income tax computed at the statutory tax rate to provision for income tax in the consolidated statements of comprehensive income for the years ended December 31, 2019, 2018 and 2017 follows:

| | 2019 | 2018 | 2017 |
|--|-----------------------|-----------------------|-----------------------|
| Income before income tax | ₱1,966,696,191 | ₱2,068,825,887 | ₱1,831,852,935 |
| Provision for income tax computed at 30% | ₱590,008,857 | ₱620,647,766 | ₱549,555,881 |
| Adjustments to income tax resulting from: | | | |
| Equity in net earnings of associates | (398,240,914) | (379,623,624) | (341,228,796) |
| Impact of OSD | (17,555,719) | (41,830,062) | (44,729,860) |
| Interest income already subjected to final tax | (30,719,030) | (14,690,438) | (1,934,497) |
| Others | 5,035,580 | (9,833,726) | (3,934,204) |
| | ₱148,528,774 | ₱174,619,916 | ₱157,728,524 |



The Group's deferred income tax assets and deferred income tax liabilities relate to the following:

| | 2019 | 2018 |
|---|--------------------|--------------------|
| Deferred income tax assets on: | | |
| Asset retirement obligation | ₱24,429,119 | ₱23,643,002 |
| Pension liability | 7,584,352 | 5,526,274 |
| Unrealized foreign exchange loss | 13,629 | - |
| | 32,027,100 | 29,169,276 |
| Deferred income tax liability on: | | |
| Excess of fair value over acquisition cost - property, plant and equipment and inventory | 831,032 | 917,444 |
| Unrealized foreign exchange gain | - | 902,463 |
| | 831,032 | 1,819,907 |
| Net deferred income tax assets | ₱31,196,068 | ₱27,349,369 |

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

The Parent Company, SIPC and BLCI availed of the OSD in the computation of their taxable income in 2019, 2018 and 2017.

26. Segment Information

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

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

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

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

The CODM monitors the operating results of its business units separately for the purpose of making decisions about resource allocation and performance assessment. Segment performance is evaluated based on operating profit or loss in the consolidated financial statements.

The Group earned inter-segment revenues amounting to ₱0.3 million, ₱0.2 million and nil in 2019, 2018 and 2017, respectively, pertaining to the supply of emergency power by SPC and SIPC to BLCI.



| 2019 | | | | | | |
|---|-------------------------------------|----------------|-------------|----------------|-----------------|----------------------------|
| | Before Adjustments and Eliminations | | | | Adjustments and | After |
| | Generation | Distribution | Others | Total | Eliminations | Eliminations/ Consolidated |
| Revenue | ₱1,605,251,205 | ₱1,194,092,629 | ₱— | ₱2,799,343,834 | (₱334,596) | ₱2,799,009,238 |
| Income before income tax | 2,330,456,150 | 90,383,395 | 9,633,731 | 2,430,973,276 | (464,277,085) | 1,966,696,191 |
| Net income | 2,203,435,595 | 69,375,176 | 9,633,731 | 2,282,444,502 | (464,277,085) | 1,318,167,417 |
| Total assets | 7,521,218,442 | 770,043,921 | 90,366,170 | 8,381,628,533 | 2,714,073,370 | 11,095,702,403 |
| Property, plant and equipment (see Note 11) | 591,736,507 | 200,437,564 | — | 792,174,071 | 1,578,445 | 793,752,516 |
| Total liabilities | 428,101,098 | 523,430,125 | 111,014 | 951,642,237 | (18,339,846) | 933,302,391 |
| Depreciation and amortization (see Note 22) | 91,773,451 | 19,335,741 | — | 111,109,192 | — | 111,109,192 |
| Capital expenditures | 89,332,323 | 23,579,176 | — | 112,911,499 | — | 112,911,499 |
| 2018 | | | | | | |
| | Before Adjustments and Eliminations | | | | Adjustments and | After |
| | Generation | Distribution | Others | Total | Eliminations | Eliminations/ Consolidated |
| Revenue | ₱1,302,315,658 | ₱1,083,337,673 | ₱— | ₱2,386,154,331 | (₱239,320) | ₱2,385,914,511 |
| Income before income tax | 2,519,248,156 | 62,441,041 | 34,212,476 | 2,615,901,673 | (547,075,786) | 2,068,825,887 |
| Net income | 2,360,165,380 | 46,903,901 | 34,212,476 | 2,441,281,757 | (547,075,786) | 1,894,205,971 |
| Total assets | 7,630,481,671 | 748,577,664 | 94,739,320 | 8,473,899,155 | 2,470,585,344 | 10,944,584,999 |
| Property, plant and equipment (see Note 11) | 586,522,311 | 194,578,910 | — | 781,201,721 | — | 781,201,721 |
| Total liabilities | 740,203,678 | 532,926,984 | 118,395 | 1,273,249,057 | (353,334,838) | 919,914,219 |
| Depreciation and amortization (see Note 22) | 72,320,361 | 18,203,391 | — | 90,524,252 | — | 90,524,252 |
| Capital expenditures | 69,062,376 | 59,485,358 | — | 128,548,734 | — | 128,548,734 |
| 2017 | | | | | | |
| | Before Adjustments and Eliminations | | | | Adjustments and | After |
| | Generation | Distribution | Others | Total | Eliminations | Eliminations/ Consolidated |
| Revenue | ₱1,435,332,793 | ₱914,238,398 | ₱— | ₱2,350,121,191 | ₱— | ₱2,350,121,191 |
| Income before income tax | 2,372,999,117 | 69,513,729 | 14,428,929 | 2,456,946,775 | (625,093,340) | 1,331,852,935 |
| Net income | 2,231,381,248 | 53,408,074 | 14,428,929 | 2,299,218,251 | (625,093,340) | 1,674,124,411 |
| Total assets | 7,319,348,133 | 470,415,127 | 114,519,457 | 7,904,282,717 | 2,967,306,291 | 10,372,089,008 |
| Property, plant and equipment (see Note 11) | 625,426,592 | 152,919,010 | — | 778,345,602 | — | 778,345,602 |
| Total liabilities | 1,250,138,474 | 258,719,204 | 110,508 | 1,509,018,186 | (1,083,494) | 1,507,934,692 |
| Depreciation and amortization (see Note 22) | 60,765,167 | 18,913,017 | — | 79,683,184 | — | 79,683,184 |
| Capital expenditures | 168,706,281 | 22,239,927 | — | 190,946,208 | — | 190,946,208 |

In 2018, the Group recognized impairment loss amounting to ₱14.3 million on its machineries and equipment as a result of determining the disposal group's fair value less cost to sell (see note 11).

The Group's revenue from contracts with customers is mainly from generation and distribution services. Set out below is the disaggregation of the Group's revenue from contracts with customer in 2019, 2018 and 2017:

| 2019 | | | |
|---|----------------|----------------|----------------|
| | Generation | Distribution | Total |
| Revenue from power supply contracts and ancillary services | ₱857,932,460 | ₱— | ₱857,932,460 |
| Revenue from market power trading | 746,984,149 | — | 746,984,149 |
| Revenue from distribution services (see Note 23) | — | 1,194,092,629 | 1,194,092,629 |
| Total operating fees | 1,604,916,609 | 1,194,092,629 | 2,799,009,238 |
| Revenue from management services presented as "Service income" (see Note 5) | 123,643,736 | — | 123,643,736 |
| Total | ₱1,728,560,345 | ₱1,194,092,629 | ₱2,922,652,974 |



| | 2018 | | Total |
|---|----------------|----------------|----------------|
| | Generation | Distribution | |
| Revenue from power supply contracts and ancillary services | ₱1,029,232,839 | ₱— | ₱1,029,232,839 |
| Revenue from market power trading | 273,293,999 | — | 273,293,999 |
| Revenue from distribution services (see Note 23) | — | 1,083,337,673 | 1,083,337,673 |
| Total operating fees | 1,302,576,838 | 1,083,337,673 | 2,385,914,511 |
| Revenue from management services presented as "Service income" (see Note 5) | 120,007,156 | — | 120,007,156 |
| Total | ₱1,422,583,994 | ₱1,083,337,673 | ₱2,505,921,667 |

| | 2017 | | Total |
|---|----------------|--------------|----------------|
| | Generation | Distribution | |
| Revenue from power supply contracts and ancillary services | ₱1,143,508,549 | ₱— | ₱1,143,508,549 |
| Revenue from market power trading | 292,324,244 | — | 292,324,244 |
| Revenue from distribution services (see Note 23) | — | 914,288,398 | 914,288,398 |
| Total operating fees | 1,435,832,793 | 914,288,398 | 2,350,121,191 |
| Revenue from management services presented as "Service income" (see Note 5) | 100,006,366 | — | 100,006,366 |
| Total | ₱1,535,839,159 | ₱914,288,398 | ₱2,450,127,557 |

Revenue from the Group's major external customers, which account for 54%, 48% and 50% in 2019, 2018 and 2017, respectively, amounted to ₱1,505.1 million, ₱1,133.8 million and ₱1,176.9 million, respectively.

Adjustments and Eliminations

Adjustments and eliminations are part of detailed reconciliations presented below:

Reconciliation of Net Income

| | 2019 | 2018 | 2017 |
|--|-----------------|-----------------|-----------------|
| Segment net income | ₱2,278,444,502 | ₱2,441,281,757 | ₱2,299,218,251 |
| Equity in net earnings of associates (see Note 10) | 1,327,469,713 | 1,265,412,079 | 1,137,429,320 |
| Dividend income from associates (see Note 10) | (1,412,024,298) | (1,409,823,865) | (1,028,339,061) |
| Dividend income from subsidiaries | (375,722,500) | (402,664,000) | (734,184,099) |
| Group net income | ₱1,818,167,417 | ₱1,894,205,971 | ₱1,674,124,411 |

Reconciliation of Total Assets

| | 2019 | 2018 |
|--|-----------------|-----------------|
| Segment assets | ₱8,383,206,978 | ₱8,473,899,155 |
| Inter-segment receivables | (27,289,252) | (356,705,798) |
| Investments in associates and subsidiaries | 2,707,262,661 | 2,794,869,626 |
| Goodwill | 32,522,016 | 32,522,016 |
| Group assets | ₱11,095,702,403 | ₱10,944,584,999 |



Reconciliation of Total Liabilities

| | 2019 | 2018 |
|------------------------|--------------|----------------|
| Segment liabilities | ₱951,642,237 | ₱1,273,249,057 |
| Inter-segment payables | (18,339,846) | (353,334,833) |
| Group liabilities | ₱933,302,391 | ₱919,914,219 |

Indicators

The following financial indicators are used, among others, by management to evaluate the performance of the Group as of and for the years ended December 31, 2019, 2018 and 2017:

| | 2019 | 2018 | 2017 |
|--|-----------------|-----------------|-----------------|
| For the years ended December 31: | | | |
| Earnings per share (see Note 27) | ₱1.19 | ₱1.24 | ₱1.10 |
| Share in net earnings of associates (see Note 10) | 1,327,469,713 | 1,265,412,079 | 1,137,429,320 |
| Return on equity (total comprehensive income divided by average total equity) | 17.93% | 19.61% | 18.35% |
| Return on assets (total comprehensive income divided by average total assets) | 16.43% | 17.43% | 15.75% |
| Cash flows: | | | |
| Net cash flows from operating activities | 663,826,139 | 301,093,533 | 677,925,987 |
| Net cash flows from investing activities | 1,302,561,277 | 2,426,046,583 | 843,738,524 |
| Net cash flows used in financing activities | (1,675,050,396) | (1,237,727,455) | (1,829,013,293) |
| As of December 31: | | | |
| Cash and cash equivalents (see Note 6) | 3,227,403,650 | 2,937,042,859 | 1,445,250,136 |
| Current ratio (total current assets including noncurrent assets held for sale divided by total current liabilities including liabilities directly associated with noncurrent assets held for sale) | 7.82 | 7.33 | |
| Debt ratio (total liabilities divided by total assets) | 0.08 | 0.08 | |
| Debt-to-equity ratio (total liabilities divided by total equity) | 0.09 | 0.09 | |
| Solvency ratio (total comprehensive income before depreciation and amortization divided by total liabilities) | 2.06 | 2.16 | 1.17 |



27. Earnings Per Share

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

| | 2019 | 2018 | 2017 |
|---|-----------------------|----------------|----------------|
| Net income attributable to equity holders of the Parent | ₱1,782,279,548 | ₱1,854,292,292 | ₱1,643,265,605 |
| Weighted average number of common shares issued and outstanding | 1,496,551,803 | 1,496,551,803 | 1,496,551,803 |
| Basic/Diluted earnings per share | ₱1.19 | ₱1.24 | ₱1.10 |

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

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

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

28. Financial Risk Management Objectives and Policies

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

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

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

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

Interest Rate Risk

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

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



Liquidity Risk

Liquidity risk is the potential of not meeting obligations as they come due because of an inability to liquidate assets or obtain adequate funding. The Group's objective is to maintain a balance between continuity of funding and flexibility. The Group maintains sufficient cash and cash equivalents to finance its operations. Any excess cash is invested in short-term money market placements. These placements are maintained to meet maturing obligations and pay dividend declarations.

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

| | 2019 | | | | | |
|--|-----------------------|-----------------------|--------------------|--------------------|--------------------|-----------------------|
| | Total | Current | 1 to 30 Days | 31 to 60 Days | 61 to 90 Days | Over 90 Days |
| Financial Assets | | | | | | |
| At amortized cost: | | | | | | |
| Cash and cash equivalents | P3,227,403,650 | P3,227,403,650 | P- | P- | P- | P- |
| Trade and other receivables | | | | | | |
| PSALM | 1,015,262 | - | - | - | - | 1,015,262 |
| Receivable from customers | 346,415,517 | 224,498,506 | 32,535,928 | 16,940,626 | 16,366,542 | 55,473,715 |
| Current portion of PSALM deferred adjustments | 36,798,477 | 36,798,477 | - | - | - | - |
| Others | 32,994,619 | 1,327,622 | 1,572,107 | 1,406,431 | 1,283,492 | 27,404,967 |
| | 417,223,875 | 262,624,705 | 34,208,035 | 18,347,057 | 18,150,134 | 83,893,944 |
| Due from related parties | 1,673,605 | 139,476 | 49,571 | 20,366 | 21,959 | 1,442,233 |
| PSALM deferred adjustments (included in "Other noncurrent assets") | 145,967,292 | - | - | - | - | 145,967,292 |
| | 3,792,268,422 | 3,490,167,331 | 34,257,606 | 18,367,423 | 18,172,093 | 231,303,469 |
| At FVOCI: | | | | | | |
| Investment in proprietary club shares | 7,300,000 | - | - | - | - | 7,300,000 |
| | 3,799,568,422 | 3,490,167,331 | 34,257,606 | 18,367,423 | 18,172,093 | 238,603,469 |
| Financial Liabilities | | | | | | |
| Trade and other payables | | | | | | |
| Trade | 263,978,646 | 240,273,771 | 5,362,375 | 4,536,461 | 224,099 | 13,581,940 |
| Accrued expenses | 34,604,487 | 22,649,303 | 181 | - | - | 11,955,003 |
| Nontrade | 65,990,324 | 54,526,290 | 70,671 | 156,484 | 88,777 | 11,148,102 |
| | 364,573,457 | 317,449,364 | 5,433,227 | 4,692,945 | 312,876 | 36,685,045 |
| Due to related parties | 605,080 | 22,570 | 43,467 | - | 42,000 | 497,043 |
| Customers' deposits | 149,096,391 | - | - | - | - | 149,096,391 |
| Lease liabilities | 11,443,592 | - | - | - | - | 11,443,592 |
| Other noncurrent liability | 145,967,292 | - | - | - | - | 145,967,292 |
| | 671,685,812 | 317,471,934 | 5,476,694 | 4,692,945 | 354,876 | 343,689,363 |
| Net Financial Assets (Liabilities) | P3,127,882,610 | P3,172,695,397 | P28,780,912 | P13,674,478 | P17,817,217 | (P105,085,894) |

| | 2018 | | | | | |
|--|----------------|----------------|--------------|---------------|---------------|--------------|
| | Total | Current | 1 to 30 Days | 31 to 60 Days | 61 to 90 Days | Over 90 Days |
| Financial Assets | | | | | | |
| At amortized cost: | | | | | | |
| Cash and cash equivalents | P2,937,042,359 | P2,937,042,359 | P- | P- | P- | P- |
| Trade and other receivables | | | | | | |
| Receivable from PSALM | 2,190,390 | - | - | - | - | 2,190,390 |
| Receivable from customers | 357,596,696 | 239,570,576 | 30,208,165 | 13,991,673 | 13,519,596 | 50,306,681 |
| Current portion of PSALM deferred adjustments | 36,798,477 | 36,798,477 | - | - | - | - |
| Others | 40,053,362 | 10,948,621 | 2,547,077 | 2,503,727 | 632,032 | 23,422,405 |
| | 436,639,425 | 287,317,674 | 32,755,242 | 21,495,405 | 19,151,628 | 75,919,476 |
| Due from related parties | 16,310,651 | 15,232,502 | 31,180 | 38,340 | 31,377 | 1,476,252 |
| PSALM deferred adjustments (included in "Other noncurrent assets") | 132,765,769 | - | - | - | - | 132,765,769 |
| | 3,573,258,704 | 3,239,593,035 | 32,786,422 | 21,534,245 | 19,183,505 | 260,161,497 |
| At FVOCI: | | | | | | |
| Investment in proprietary club shares | 6,500,000 | - | - | - | - | 6,500,000 |
| | 3,579,758,704 | 3,239,593,035 | 32,786,422 | 21,534,245 | 19,183,505 | 266,661,497 |

(Forward)



| | 2018 | | | | | |
|---|-----------------------|-----------------------|--------------------|--------------------|--------------------|-----------------------|
| | Total | Current | 1 to 30 Days | 31 to 60 Days | 61 to 90 Days | Over 90 Days |
| Financial Liabilities | | | | | | |
| Trade and other payables | | | | | | |
| Trade | ₱253,963,939 | ₱223,562,547 | ₱11,362,210 | ₱4,509,145 | ₱2,251,126 | ₱17,178,311 |
| Accrued expenses | 33,064,242 | 20,372,907 | 380,710 | 334,210 | 331,513 | 11,594,300 |
| Nontrade | 95,542,217 | 63,943,567 | 1,153 | 627,980 | 788,305 | 30,130,712 |
| | 387,570,398 | 307,879,121 | 11,744,073 | 5,571,335 | 3,421,546 | 58,954,323 |
| Dividends payable | 849,987 | 849,987 | - | - | - | - |
| Due to related parties | 536,700 | 22,552 | 67,106 | - | - | 497,042 |
| Customers' deposits | 132,093,513 | - | - | - | - | 132,093,513 |
| Other noncurrent liability | 132,765,769 | - | - | - | - | 132,765,769 |
| | 703,366,367 | 308,751,660 | 11,811,179 | 5,571,335 | 3,421,546 | 374,310,547 |
| Net Financial Assets (Liabilities) | ₱2,375,392,337 | ₱2,930,341,375 | ₱20,975,243 | ₱15,962,910 | ₱15,761,959 | (₱107,549,150) |

Credit Risk

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

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

With respect to credit risk arising from the financial assets of the Group, which comprise cash and cash equivalents, trade and other receivables, due from related parties and PSALM deferred adjustments included in "Other noncurrent assets", the Group's exposure to credit risk arises from default of the counterparty. The Group's credit risk from cash and cash equivalents is mitigated by Philippine Deposit Insurance Corporation's (PDIC) insurance coverage on the cash in bank. While the Group does not hold collateral as security, its credit risk from trade and other receivables is mitigated by the customers' deposits which are collected to guarantee any uncollected bills from the customers upon termination of the service contract.

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

| | 2019 | | |
|--|-----------------------|-----------------------|-------------------------|
| | Maximum exposure | Offset | Exposure to credit risk |
| At amortized cost: | | | |
| Cash and cash equivalents (excluding cash on hand) | ₱3,220,366,103 | (₱9,421,306) | ₱3,210,944,797 |
| Trade and other receivables | 417,223,875 | (96,843,836) | 320,380,039 |
| Due from related parties | 1,673,605 | - | 1,673,605 |
| PSALM deferred adjustments (included in "Other noncurrent assets") | 145,967,292 | - | 145,967,292 |
| | ₱3,785,230,875 | (₱106,265,142) | ₱3,678,965,733 |

| | 2018 | | |
|--|-----------------------|----------------------|-------------------------|
| | Maximum exposure | Offset | Exposure to credit risk |
| At amortized cost: | | | |
| Cash and cash equivalents (excluding cash on hand) | ₱2,928,731,599 | (₱8,067,264) | ₱2,920,664,335 |
| Trade and other receivables | 436,639,425 | (87,000,075) | 349,639,350 |
| Due from related parties | 16,810,651 | - | 16,810,651 |
| PSALM deferred adjustments (included in "Other noncurrent assets") | 132,765,769 | - | 132,765,769 |
| | ₱3,564,947,444 | (₱95,067,339) | ₱3,469,880,105 |



As of December 31, 2019 and 2018, the Group's significant concentration of credit risk pertains to its trade and other receivables and PSALM deferred adjustments amounting to P563.2 million and P619.4 million, respectively, and impaired financial assets, determined based on probability of collection, are adequately covered with allowance.

Applicable for the years ended December 31, 2019 and 2018

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

General Approach

- *Cash and cash equivalents* - As of December 31, 2019 and 2018, the ECL relating to the cash and cash equivalents of the Group is minimal as these are deposited in reputable banks which have good bank standing, and is considered to have low credit risk.
- *Due from NPC/PSALM, related parties, and other receivables* - As of December 31, 2019 and 2018, there were no individually impaired accounts. No ECL is recognized for these receivables since there were no history of default payments. This assessment is undertaken each financial year through examining the financial position of the parties and the markets in which the parties operate.

Simplified Approach

- *Trade and other receivables* - The Group applied the simplified approach using a 'provision matrix'. As of December 31, 2019 and 2018, the allowance for impairment losses as a result from performing collective and specific impairment test amounted to P37.2 million and P36.3 million. Management evaluated that the Parent Company's trade receivables are of high grade and of good credit quality.

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

| 2018 | | | | | |
|-----------------------|-------------------------|-------------------------|-------------------------|--|--------------|
| | Stage 1 12-month ECL | Stage 2 Lifetime ECL | Stage 3 Lifetime ECL | Lifetime ECL Simplified Approach | Total |
| Gross carrying amount | P- | P- | P32,647,485 | P439,125,937 | P471,773,422 |
| Loss allowance | - | - | (32,647,485) | (3,661,640) | (36,309,125) |
| Carrying amount | P- | P- | P- | P435,464,297 | P435,464,297 |

The Group grades its financial assets as follows:

- *Cash and Cash Equivalents*: These are assessed as high grade since these are deposited in reputable banks which have good bank standing, thus credit risk is minimal.
- *Receivable/Due from NPC/PSALM, NGCP and Distribution Utilities*: These are assessed as high grade since these receivables arose from the contract provisions of the ROMM Agreement, Operation and Maintenance Service Contracts (OMSC), Ancillary Services Procurement Agreements (ASPA), Power Supply Contracts (PSCs), and/or collectible from government institution.



- *Receivable from Customers of BLCI:* Receivables from commercial customers are classified as high grade; receivables from residential customers as standard; and receivables from the government, hospitals and radio stations as substandard. Classification is based on the collection history with these customers.
- *Due from Related Parties:* These are assessed as standard, although recoverability of these receivables is certain, as these are given secondary priority as to settlement by the related parties compared to third party obligations.
- *Other Receivables:* Grading of financial assets is determined individually based on the Group's collection experience with the counterparty.

Fair Value of Financial Assets and Financial Liabilities

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Fair values are obtained from quoted market prices, discounted cash flow models and option pricing models, as appropriate.

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

- *Cash and Cash Equivalents, Trade and Other Receivables, Trade and Other Payables and Due From/To Related Parties.* The carrying amounts of cash and cash equivalents, trade and other receivables, trade and other payables and due from/to related parties approximate their value due to the relatively short-term maturity of these financial instruments.
- *Investment in Proprietary Club Shares.* Market values have been used to determine the fair value of listed proprietary club shares.
- *Noncurrent Receivable (included in "Other Noncurrent Assets") and Other Noncurrent Liability.* The fair values of the noncurrent receivable and noncurrent liability are based on the net present value of cash flows using the prevailing market rate of interest. As of December 31, 2019 and 2018, the carrying values of the noncurrent receivable and noncurrent liability approximate their fair values.
- *Customers' Deposits.* The fair value of customers' deposits approximates the carrying value as (1) bill deposits earn interest at the prevailing market interest rate in accordance with regulatory guidelines and (2) the timing and related amounts of future cash flows relating to material deposits cannot be reasonably and reliably estimated for purposes of establishing their fair values using an alternative valuation technique.

As of December 31, 2019 and 2018, the Group considers its investment in proprietary club shares measured and carried at fair values of ₱7.3 million and ₱6.5 million under Level 1 classification, respectively (see Notes 2 and 12). The Group also considers its noncurrent receivable amounting to ₱146.0 million and ₱182.8 million as of December 31, 2019 and 2018, respectively, noncurrent liability amounting to ₱146.0 million and ₱182.8 million as of December 31, 2019 and 2018, and customers' deposits amounting to ₱149.1 million and ₱132.1 million as of December 31, 2019 and 2018, respectively, under the Level 3 classification.

During the reporting period ended December 31, 2019, there were no transfers between Level 1 and Level 2 fair value measurements, and no transfers into and out of Level 3 fair value measurements.



29. Other Matters

Electricity Power Industry Reform Act (EPIRA) of 2001

On June 8, 2001, the EPIRA was signed into law and took effect on June 26, 2001. The law provides, among others, for the privatization of the assets of NPC, the creation of PSALM to accept transfers of all assets and assume all outstanding obligations of NPC, and the restructuring of the electric power industry sector as a whole. The law also provides for the mandate and framework to introduce competition in the electricity market and penalize anti-competitive behaviour. The IRR of the EPIRA was approved by the Joint Congressional Power Commission on February 27, 2002.

The EPIRA and its covering IRR provide for significant changes in the power industry including the following: (i) Competition in the retail supply of electricity; (ii) Open access to the transmission and distribution systems; (iii) Establishment of a Wholesale Electricity Spot Market (WESM); (iv) Unbundling of the generation, transmission and distribution rates; and (v) Removal of existing cross-subsidies provided by industrial and commercial users to residential customers.

An important milestone in the Philippine power industry was reached when the WESM began commercial operations on June 23, 2006. In the Visayas region, WESM started operations on December 26, 2010. The establishment of the WESM is one of the preconditions to retail competition and open access required by the EPIRA.

SIPC, after complying with the requirements set under WESM rules, has been participating in the WESM since the start of commercial operation of the WESM in the Visayas Grid on December 26, 2010 up to the present. The Parent Company started participating in the WESM starting in the last quarter of 2014.

Land Lease Agreements (LLAs)

The Parent Company and SIPC entered into LLAs with PSALM (as Lessor) in furtherance of and as an ancillary contract to the respective Asset Purchase Agreements (APA) with PSALM, governing the sale of assets as follows:

- *Panay and Bohol Diesel Power Plants.* The purchase of the Panay and Bohol Diesel Power Plants was covered by LLA between the Parent Company and PSALM which provides, among others, that the control and possession of the facilities will be turned over to the Parent Company upon completion of the conditions precedent to closing. Subsequently, with the written consent of PSALM, the Parent Company assigned its rights and obligations under the APA and LLA to SIPC. Following the completion of the conditions precedent and the completion of the respective Certificates of Closing of the Parent Company, SIPC and PSALM, the control and possession of the purchased assets were turned over and transferred to SIPC on March 25, 2009 (the "Closing Date").

The term of the LLA is 25 years from Closing Date, which may be renewed or extended for another period of 25 years or the remaining corporate life of PSALM, whichever is shorter, upon the mutual written agreement of the parties. The rentals which were paid in full on Closing Date (March 25, 2009) amounted to ₱10.6 million.

- *LBGTs.* On January 29, 2010, the Parent Company executed the LLA with a term of 10 years from Closing Date, which may be renewed or extended for another period of 10 years or the remaining corporate life of PSALM, whichever is shorter, upon the mutual written agreement of the parties. The rentals which were paid in full on Closing Date amounted to ₱1.2 million.



- *153.1 MW Naga Power Plant (consisting of CTPP 1, CTPP 2 and CDPP 1) (see Note 29).* On September 25, 2014, the Parent Company executed the LLA with a term of 25 years from Closing Date, which may be renewed or extended for another period of 25 years or the remaining corporate life of PSALM, whichever is shorter, upon the mutual written agreement of the parties. The rentals which were paid in full in 2014 amounted to ₱712.5 million including withholding tax borne by the Parent Company.

Under the LLAs, the Parent Company and SIPC shall use and occupy the leased premises primarily for the operation, management, expansion and maintenance of the power plants, and shall not assign or transfer any of their right under the LLA or sublease all or any part of the leased premises without the prior consent of PSALM. The Parent Company and SIPC, at their own expense, shall be solely responsible for obtaining all the necessary authorizations, licenses and permits for any alterations, additions, facilities, improvements and installations introduced on the leased premises. Within a period of 180 days from the termination of the LLAs or expiration of the lease terms, the Parent Company and SIPC are obliged to perform activities to facilitate clean-up, return and surrender of the leased premises (see Notes 2 and 3).

The LLAs also cover an option to purchase optioned assets within the leased premises that may be offered by the Lessor. The purchase price (on a per square meter basis) shall be equivalent to the highest of the following valuations and/or amounts: (i) the assessment of the Provincial Assessor; (ii) the assessment of the Municipal or City Assessor; and (iii) the zonal valuation of the Bureau of Internal Revenue. The unused rentals corresponding to the area of the optioned assets over which the option was exercised shall be deducted from the purchase price.

In 2017, SIPC exercised its option to purchase the optioned assets covering all the lots underlying the Bohol Diesel Power Plant with a total area of 27,527 square meters. The aggregate of the purchase price amounting to ₱35.6 million is shown as part of "Property, plant and equipment" account in the consolidated statements of financial position (see Note 11).

The current portion of the remaining prepaid rent amounting to nil and ₱0.4 million as of December 31, 2019 and 2018, respectively, are presented as part of "Prepayments and other current assets" and the noncurrent portion amounting to nil and ₱5.3 million as of December 31, 2019 and 2018, respectively, are presented as part of "Other noncurrent assets", in the consolidated statements of financial position (see Notes 9 and 12). The remaining prepaid rent as of December 31, 2018 amounting to ₱5.3 million was derecognized upon adoption of PFRS 16 (see Notes 2 and 11).

Rent expense under the LLAs amounted to nil in 2019 and ₱0.2 million in 2018 and 2017, respectively (see Notes 20 and 22).

PSALM's Cost Recovery Adjustments

Deferred Accounting Adjustments (DAA). The ERC issued an Order dated June 20, 2017 authorizing PSALM to implement the methodology for the recovery/refund of the approved DAA pertaining to GRAM and ICERA, which was granted by ERC in a Decision dated March 26, 2012.

Upon Private Electric Power Operators Association's (PEPOA) motion, the ERC, in an Order dated October 19, 2017, deferred the implementation of the approved DAA pending clarification by the ERC of the queries raised in the motion for clarification.

The ERC subsequently clarified that the GRAM and ICERA DAA are deferred adjustments, which were incurred by PSALM/NPC in supplying energy during the corresponding period; thus, it should



be recovered/refunded by PSALM/NPC to its customers. Hence, the Distribution Utilities (DUs) are not just mere collectors of the said DAA but these are charges that they should pay to NPC/PSALM and charged to their customers as part of their generation charge. In the same Order, the ERC directed the DUs to resume the implementation of the GRAM and ICERA starting the January 2018 billing period.

Automatic Cost Recovery Mechanism (ACRM). On June 20, 2017, the ERC issued its Decision, authorizing PSALM to recover/refund the True-up Adjustments of Fuel and Purchased Power Costs and Foreign Exchange-Related Costs effective its next billing period.

In an Order dated October 19, 2017, the implementation of the ACRM was deferred to the January 2018 billing period pending the evaluation of the clarifications raised in PEPOA's letter and motion and, subsequently, the ERC issued an Order directing PSALM and the DUs to abide with the clarifications issued by the ERC.

The current portion of the Group's PSALM deferred adjustments amounting to ₱36.8 million as of December 31, 2019 and 2018, respectively, is recorded under "Trade and other receivables" and the noncurrent portion amounting to ₱146.0 million and ₱182.8 million as of December 31, 2019 and 2018, respectively, are presented as part of "Other noncurrent assets", in the consolidated statements of financial position (see Notes 7 and 12). The current and noncurrent portions of the corresponding amounts due to PSALM was presented as part of "Nontrade" under "Trade and other payables" and "Other noncurrent liability" in the consolidated statement of financial position as of December 31, 2019 and 2018.

Acquisition and Turnover of the 153.1 MW Naga Power Plant Complex (NPPC)

Prior to the expiration of the OMSC on September 25, 2014, the Parent Company purchased the NPPC after exercising its "right-to-top" (RTT) the winning bid, which right was pursuant to the LLA with PSALM that was executed when the LBGTs were acquired by the Parent Company in 2010. Pursuant to the APA executed by the Parent Company and PSALM covering the purchase of the assets consisting of the thermal and diesel power plants (CTPP 1 and CTPP 2, and CDPP 1), the Parent Company paid PSALM a total of ₱463.3 million. The Parent Company and PSALM also entered into an LLA, as an ancillary contract to the APA, covering the land where the purchased assets are located, and paid in full the total lease rentals amounting to ₱712.5 million. Following the issuance of Notice of Award on July 28, 2014 and after completing all the conditions for Closing, PSALM turned over the NPPC to the Parent Company on September 25, 2014, coinciding with the termination of the OMSC.

More than one year after PSALM awarded the NPPC to the Parent Company, the Supreme Court (SC) declared the APA and the LLA for the sale of the NPPC to be null and void per decision promulgated on September 28, 2015.

On December 1, 2015, the Parent Company filed its Motion for Reconsideration of the SC Decision dated September 28, 2015. In said Motion for Reconsideration, the Parent Company stressed that, as the owner of the LBGT and the lease on the land on which the LBGT stands, it has an interest in the whole of the Complex and not just within the leased premises. This is due to the fact that the Parent Company's payment for the LBGT necessarily includes payment for the RTT, the LBGT and the land subject of the LBGT-LLA which forms part of the Complex, and the Parent Company shares in the use, upkeep and maintenance of the Co-Use Facilities within the Complex, thus, showing that the Parent Company's interest extends to the whole of the Complex.



On December 9, 2015, the SC resolved to deny the Motion for Reconsideration. Thus, a Motion For Leave to File and Admit the Attached Urgent Motion for Second Reconsideration and/or Referral to the En Banc was filed by the Parent Company on February 2, 2016. However, on April 6, 2016, the SC issued a Resolution where it resolved among others to deny the said Motion For Leave and noted without action, the attached Urgent Motion for Second Reconsideration and /or Referral to En Banc, in view of the denial of the Motion for Leave. Accordingly, an amount equivalent to ₱1,143.2 million (i.e., amount paid by the Parent Company to PSALM in 2014, net of withholding tax) was recognized as other noncurrent receivable as of December 31, 2016 and 2015. On October 5, 2016, the SC granted the manifestation/motion of Therma Power Visayas, Inc. (TPVI) dated March 16, 2016 praying for the reinstatement of the notice of award in favor of TPVI dated April 30, 2014. The Parent Company then filed an Urgent Motion For Reconsideration with Alternative Motion to Refer to the En Banc, on November 2, 2016. In a Resolution dated November 23, 2016, the SC denied the same. Another Urgent Motion For Reconsideration was filed by the Parent Company on December 9, 2016. This was followed up by the filing on January 19, 2017 of a Supplemental Motion/Petition for Referral to the En Banc which argued that there was a violation of SPC's substantive right to due process in reinstating the Notice of Award in favor of TPVI and a violation of procedural due process in lifting the Entry of Judgment of September 23, 2015.

On February 21, 2017, the Parent Company received the Entry of Judgment through its legal counsel certifying that the September 23, 2015 Decision and October 5, 2016 Resolution have become final and executory on November 23, 2016 and were recorded in the Books of Entries of Judgments.

On April 26, 2017, the SC issued a final resolution denying both the Motion for Reconsideration and the Supplemental Motion/Petition for Referral to the En Banc filed on December 9, 2016 and January 19, 2017, respectively. In its final resolution, the SC confirmed that the September 23, 2015 Decision and the October 5, 2016 Resolution became final on November 23, 2016.

After receipt of the Notice of the Second Entry of Judgment in February 2017, the Parent Company was anticipating a speedy turnover of the NPPC. However, serious negotiations never transpired as of December 31, 2017 through no fault of the Parent Company.

Considering that the NPPC has been in the possession of the Parent Company even after November 23, 2016, it has to operate the plant as the best way to preserve it pending the eventual turn-over to PSALM and the return of the purchase price, as well as the reimbursement of necessary and useful expenses made on the NPPC. The incidental income and expenses derived from operating and preserving the NPPC after November 23, 2016 are recognized as part of "Others - net" in the consolidated statements of comprehensive income (see Note 8).

On July 9, 2018, PSALM and the Parent Company finally entered into a Memorandum of Agreement (MOA) containing the terms and conditions for the return of the NPPC to PSALM, return of the SPC Bid to the Parent Company, and the settlement of all claims between the parties.

In accordance with the MOA, PSALM and the Parent Company executed the Joint Certificate of Turnover on July 13, 2018. Thus, the Parent Company turned over the NPPC and paid the entire payable to PSALM through cash amounting to ₱75.7 million, net of withholding tax, for fuel and coal consumed and through replacement of fuel while PSALM returned the SPC Bid to the Parent Company amounting to ₱1,143.2 million.



Events After the Reporting Period

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

The Group considers the events surrounding the outbreak as non-adjusting subsequent events, which do not impact its financial position and performance as of and for the year ended December 31, 2019. However, the outbreak could have a material impact on its 2020 financial results and even periods thereafter. Considering the evolving nature of this outbreak, the Group cannot determine at this time the impact to its financial position, performance and cash flows. The Group will continue to monitor the situation.

30. Lease Agreements

The Group has entered into various leases for office spaces, parking lots and parcels of land which include those with other landowners and those with respect to its LLA with PSALM (see Note 29). Leases of office spaces and parking lots generally have lease terms between 1 to 4 years, while leases of parcels of land generally have lease terms between 1 to 25 years. Total rent expense charged to operations amounted to ₱1.6 million, ₱6.4 million and ₱6.7 million in 2019, 2018 and 2017, respectively (see Note 20).

Set out below are the carrying amounts of the Company's right-of-use assets, presented as part of property, plant and equipment, and lease liabilities and the movements during the year ended December 31, 2019:

| | Right-of-use assets | | | Lease liabilities |
|----------------------|---------------------|--------------|-------------|-------------------|
| | Land | Office Space | Total | |
| As at January 1 | ₱7,289,017 | ₱1,263,879 | ₱8,552,896 | ₱3,440,186 |
| Additions | — | 9,263,019 | 9,263,019 | 9,263,019 |
| Depreciation expense | — | (4,401,365) | (4,401,365) | — |
| Interest expense | — | — | — | 827,244 |
| Payments | — | — | — | (3,043,168) |
| As at December 31 | ₱7,289,017 | ₱6,125,533 | ₱13,414,550 | ₱10,487,281 |

Set out below are the amounts recognized in the consolidated statement of comprehensive income for the year ended December 31, 2019:

| | |
|--|-------------------|
| Depreciation expense of right-of-use assets | ₱4,401,365 |
| Interest expense on lease liabilities | 827,244 |
| Rent expense - short-term leases (see Note 20) | 1,649,624 |
| | <u>₱6,878,233</u> |



Shown below is the maturity analysis as of December 31, 2019 of the undiscounted lease payments:

| | Amount |
|------------------------------|--------------------|
| 1 year | P5,858,926 |
| more than 1 years to 2 years | 3,869,041 |
| more than 2 years to 3 years | 408,482 |
| more than 3 years to 4 years | 408,482 |
| more than 5 years | 898,661 |
| | <u>P11,443,592</u> |

31. Notes to Consolidated Statements of Cash Flows

Changes in liabilities arising from financing activities in 2019 and 2018 are as follows:

| | 2019 | | | | | |
|------------------------------------|-------------------|-------------------------|------------------------------------|--------------------|-------------------------|--------------------|
| | At January 1 | Dividend Declaration | Dividend Attributable to NCI | Others | Cash Flows | At December 31 |
| Dividends payable (see Note 18) | P849,987 | P1,646,206,983 | P25,777,502 | P- | (P1,672,834,472) | P- |
| Lease liabilities (see Note 30) | 3,440,136 | - | - | 10,090,263 | (3,043,168) | 10,487,281 |
| | <u>P4,290,173</u> | <u>P1,646,206,983</u> | <u>P25,777,502</u> | <u>P10,090,263</u> | <u>(P1,675,877,640)</u> | <u>P10,487,281</u> |

Others in 2019 include interest expense on the Group's lease liabilities and additional lease liabilities recognized during the year.

| | 2018 | | | | | |
|------------------------------------|-----------------|-------------------------|------------------------------------|--------|------------------|-------------------|
| | At January 1 | Dividend Declaration | Dividend Attributable to NCI | Others | Cash Flows | At December 31 |
| Dividends payable (see Note 18) | P- | P1,197,241,442 | P41,336,000 | P- | (P1,237,727,455) | P849,987 |

| | 2017 | | | | | |
|------------------------------------|---------------------|-------------------------|------------------------------------|-------------------|-------------------------|-------------------|
| | At January 1 | Dividend Declaration | Dividend Attributable to NCI | Others | Cash Flows | At December 31 |
| Long-term debt | P576,228,515 | P- | P- | P1,549,263 | (P577,777,778) | P- |
| Dividends payable (see Note 18) | 22,028,175 | 1,197,241,440 | 31,965,900 | - | (1,251,235,515) | - |
| | <u>P598,256,690</u> | <u>(P1,197,241,440)</u> | <u>P31,965,900</u> | <u>P1,549,263</u> | <u>(P1,829,013,293)</u> | <u>P-</u> |

The outstanding loan balance as at January 1, 2017 was paid on October 28, 2017. Interest expense from this loan amounted to P19.2 million in 2017, including amortization of transaction costs of P1.5 million. Others in 2017 pertain to amortization of transaction costs on the Group's long-term debt.





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and 398 1011

SEC Accreditation No. 0001
October 4, 2013, valid until August 24, 2021
SEC Accreditation No. 0012-PR-3 (Group A)
November 5, 2013, valid until November 5, 2021

INDEPENDENT AUDITOR'S REPORT ON SUPPLEMENTARY SCHEDULES

The Board of Directors and the Stockholders
SPC Power Corporation
7th Floor, Cebu Holdings Center
Archbishop Reyes Avenue, Cebu Business Park
Cebu City

We have audited in accordance with Philippine Standards on Auditing, the consolidated financial statements of SPC Power Corporation and Subsidiaries as at December 31, 2019 and 2018 and for each of the three years in the period ended December 31, 2019, included in this Form 17-A, and have issued our report thereon dated May 7, 2020. Our audits were made for the purpose of forming an opinion on the basic financial statements taken as a whole. The schedules listed in the Index to the Consolidated Financial Statements and Supplementary Schedules are the responsibility of the Company's management. These schedules are presented for purposes of complying with the Revised Securities Regulation Code Rule 68, and are not part of the basic financial statements. These schedules have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, fairly state, in all material respects, the information required to be set forth therein in relation to the basic financial statements taken as a whole.

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

SCHEDULE A - FINANCIAL ASSETS

DECEMBER 31, 2019

| Name of Issuing Entity and Description of Each Issue | Number of Shares or Principal Amount of Bonds and Notes | Amount Shown in the Statement of Financial Position/Notes | Value Based on Market Quotations at End of Reporting Period | Income Received and Accrued |
|--|---|--|---|-----------------------------------|
| At amortized cost: | | | | |
| Cash and cash equivalents | - | P 3,227,403,650 | P 3,227,403,650 | P 102,453,188 |
| Trade and other receivables: | | | | |
| Power Sector Assets and Liabilities Management Corporation (PSALM) | | | | |
| Receivable from customers | - | 1,015,262 | 1,015,262 | - |
| Current portion of PSALM deferred adjustments | - | 346,415,517 | 346,415,517 | - |
| Others | - | 36,798,477 | 36,798,477 | - |
| | - | 32,994,619 | 32,994,619 | - |
| | | 417,223,875 | 417,223,875 | - |
| Due from related parties | - | 1,673,605 | 1,673,605 | - |
| PSALM deferred adjustments (included in "Other noncurrent assets") | - | 145,967,292 | 145,967,292 | - |
| | | 3,792,268,422 | 3,792,268,422 | 102,453,188 |
| Financial assets at fair value through other comprehensive income: | | | | |
| Investment in proprietary club shares | 1 | 7,300,000 | 7,300,000 | - |
| Total financial assets | - | P 3,799,568,422 | P 3,799,568,422 | P 102,453,188 |

See Note 28 of the Consolidated Financial Statements.

SPC POWER CORPORATION AND SUBSIDIARIES

**SCHEDULE B - AMOUNTS RECEIVABLE FROM DIRECTORS, OFFICERS, EMPLOYEES, RELATED PARTIES,
AND PRINCIPAL STOCKHOLDERS (OTHER THAN RELATED PARTIES)**

DECEMBER 31, 2019

| Name and Designation of Debtor | Balance at Beginning of Period | Additions | Collections | Write Offs | Balance at End of Period | |
|--------------------------------|--------------------------------------|-----------|-------------|------------|--------------------------|------------|
| | | | | | Current | Noncurrent |
| Total | | | | | | |
| - Not applicable - | | | | | | |
| | | | | | | |
| | | | | | | |
| | | | | | | |

SPC POWER CORPORATION AND SUBSIDIARIES

**SCHEDULE C - AMOUNTS RECEIVABLE FROM RELATED PARTIES WHICH ARE ELIMINATED
DURING THE CONSOLIDATION OF FINANCIAL STATEMENTS
DECEMBER 31, 2019**

| Name and Designation of Debtor | Balance at Beginning of Period | Additions | Collections | Write Offs | Balance at End of Period | | |
|-----------------------------------|--------------------------------------|-------------------|-----------------------|------------|--------------------------|------------|-------------------|
| | | | | | Current | Noncurrent | Total |
| SPC Electric Company, Inc. | ₱12,652 | ₱6,032 | (₱12,652) | ₱- | ₱6,032 | ₱- | ₱6,032 |
| Bohol Light Company, Inc. | 268,990 | 685,555 | (363,517) | - | 591,028 | - | 591,028 |
| SPC Island Power Corporation | 351,360,827 | 1,123,076 | (351,360,827) | - | 1,123,076 | - | 1,123,076 |
| SPC Malaya Power Corporation | 2,168,147 | 16,155 | (518,147) | - | 1,666,155 | - | 1,666,155 |
| SPC Light Company, Inc. | 6,793 | 6,032 | (6,793) | - | 6,032 | - | 6,032 |
| Cebu Naga Power Plant Corporation | 122,202 | 19,550 | - | - | 141,752 | - | 141,752 |
| | ₱353,939,611 | ₱1,856,400 | (₱352,261,936) | ₱- | ₱3,534,075 | ₱- | ₱3,534,075 |

SPC POWER CORPORATION AND SUBSIDIARIES

SCHEDULE D - LONG-TERM DEBT

DECEMBER 31, 2019

| Title of Issue and Type of Obligation | Amount Authorized by Indenture | Current Portion of Long-term Debt | Long-term Debt |
|---------------------------------------|--------------------------------------|---|----------------|
| -- Not applicable -- | | | |

See Note 31 of the Consolidated Financial Statements.

SPC POWER CORPORATION AND SUBSIDIARIES

SCHEDULE E - INDEBTEDNESS TO RELATED PARTIES (LONG-TERM LOANS FROM RELATED COMPANIES)

DECEMBER 31, 2019

| Name of Related Party | Balance at Beginning of Period | Balance at End of Period |
|-----------------------|--------------------------------|--------------------------|
| — Not applicable — | | |

SPC POWER CORPORATION AND SUBSIDIARIES

SCHEDULE F - GUARANTEES OF SECURITIES OF OTHER ISSUERS

DECEMBER 31, 2019

| Name of Issuing Entity of Securities Guaranteed by the Company for which this Statement is Filed | Title of Issue of Each Class of Securities Guaranteed | Total Amount Guaranteed and Outstanding | Amount Owned by Person for which Statement is Filed | Nature of Guarantee |
|--|---|---|---|---------------------|
|--|---|---|---|---------------------|

- Not applicable -

SPC POWER CORPORATION AND SUBSIDIARIES

SCHEDULE G - CAPITAL STOCK

DECEMBER 31, 2019

| Title of Issue | Number of Shares Authorized | Number of Shares Issued and Outstanding as Shown under Related Consolidated Statement of Financial Position Caption | Number of Shares Reserved for Options, Warrants, Conversion and Other Rights | Number of Shares Held by Related Parties | Directors and Officers | Others |
|----------------|-----------------------------------|---|---|--|---------------------------|-------------|
| | | | | | | |
| Capital stock | 2,000,000,000 | 1,496,551,803 | - | 1,281,805,946 | 18,430,230 | 196,315,627 |

See Note 18 of the Consolidated Financial Statements.

SPC POWER CORPORATION
RECONCILIATION OF RETAINED EARNINGS AVAILABLE FOR
DIVIDEND DECLARATION
FOR THE YEAR ENDED DECEMBER 31, 2019

| Items | Amount |
|---|-----------------|
| Unappropriated Retained Earnings, Beginning | ₱3,251,244,958 |
| Adjustments | |
| Deferred income tax assets that reduced the amount of provision for income tax | — |
| Unappropriated Retained Earnings, as Adjusted, Beginning | 3,251,244,958 |
| Net Income Based on the Face of Audited Financial Statements | 1,833,928,321 |
| Less: Non-actual/Unrealized Income Net of Tax | |
| Equity in net income of associate/joint venture | — |
| Unrealized foreign exchange loss - net (except those attributable to Cash and Cash Equivalents) | — |
| Unrealized actuarial gain | — |
| Fair value adjustment (M2M gains) | — |
| Fair value adjustment of Investment Property resulting to gain | — |
| Adjustment due to deviation from PFRS/GAAP-gain | — |
| Other unrealized gains or adjustments to the retained earnings as a result of certain transactions accounted for under the PFRS | — |
| Net deferred income tax assets that reduced the amount of provision for income tax | — |
| Add: Non-actual Losses | |
| Depreciation on revaluation increment (after tax) | — |
| Adjustment due to deviation from PFRS/GAAP - loss | — |
| Loss on fair value adjustment of investment property (after tax) | — |
| Unrealized actuarial loss | — |
| Interest expense - asset retirement obligation | — |
| Net Income Actual/Realized | 1,833,928,321 |
| Add (Less) | |
| Dividend declarations during the period | (1,646,206,983) |
| Appropriations of Retained Earnings during the period | (2,300,000,000) |
| Reversals of appropriations | 1,000,000,000 |
| Effects of prior period adjustments | — |
| Treasury shares | (131,008,174) |
| TOTAL RETAINED EARNINGS, END | |
| AVAILABLE FOR DIVIDEND DECLARATION | ₱2,007,958,122 |



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BOA/PRC Reg. No. 0001,
October 4, 2013, valid until August 24, 2021
SEC Accreditation No. 0010-PR-3 (Group A),
November 5, 2013, valid until November 5, 2021

INDEPENDENT AUDITOR'S REPORT ON COMPONENTS OF FINANCIAL SOUNDNESS INDICATORS

The Board of Directors and the Stockholders
SPC Power Corporation
7th Floor, Cebu Holdings Center
Archbishop Reyes Avenue, Cebu Business Park
Cebu City

We have audited in accordance with Philippine Standards on Auditing, the consolidated financial statements of SPC Power Corporation and subsidiaries (the Group) as at December 31, 2019 and 2018 and for each of the three years in the period ended December 31, 2019, and have issued our report thereon dated May 7, 2020. Our audits were made for the purpose of forming an opinion on the basic financial statements taken as a whole. The Supplementary Schedule on Financial Soundness Indicators, including their definitions, formulas, calculation, and their appropriateness or usefulness to the intended users, are the responsibility of the Group's management. These financial soundness indicators are not measures of operating performance defined by Philippine Financial Reporting Standards (PFRS) and may not be comparable to similarly titled measures presented by other companies. This schedule is presented for the purpose of complying with the Revised Securities Regulation Code Rule 68 issued by the Securities and Exchange Commission, and is not a required part of the basic financial statements prepared in accordance with PFRS. The components of these financial soundness indicators have been traced to the Group's consolidated financial statements as at December 31, 2019 and 2018 and for each of the three years in the period ended December 31, 2019 and no material exceptions were noted.

SYCIP GORRES VELAYO & CO.

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

FINANCIAL SOUNDNESS INDICATORS

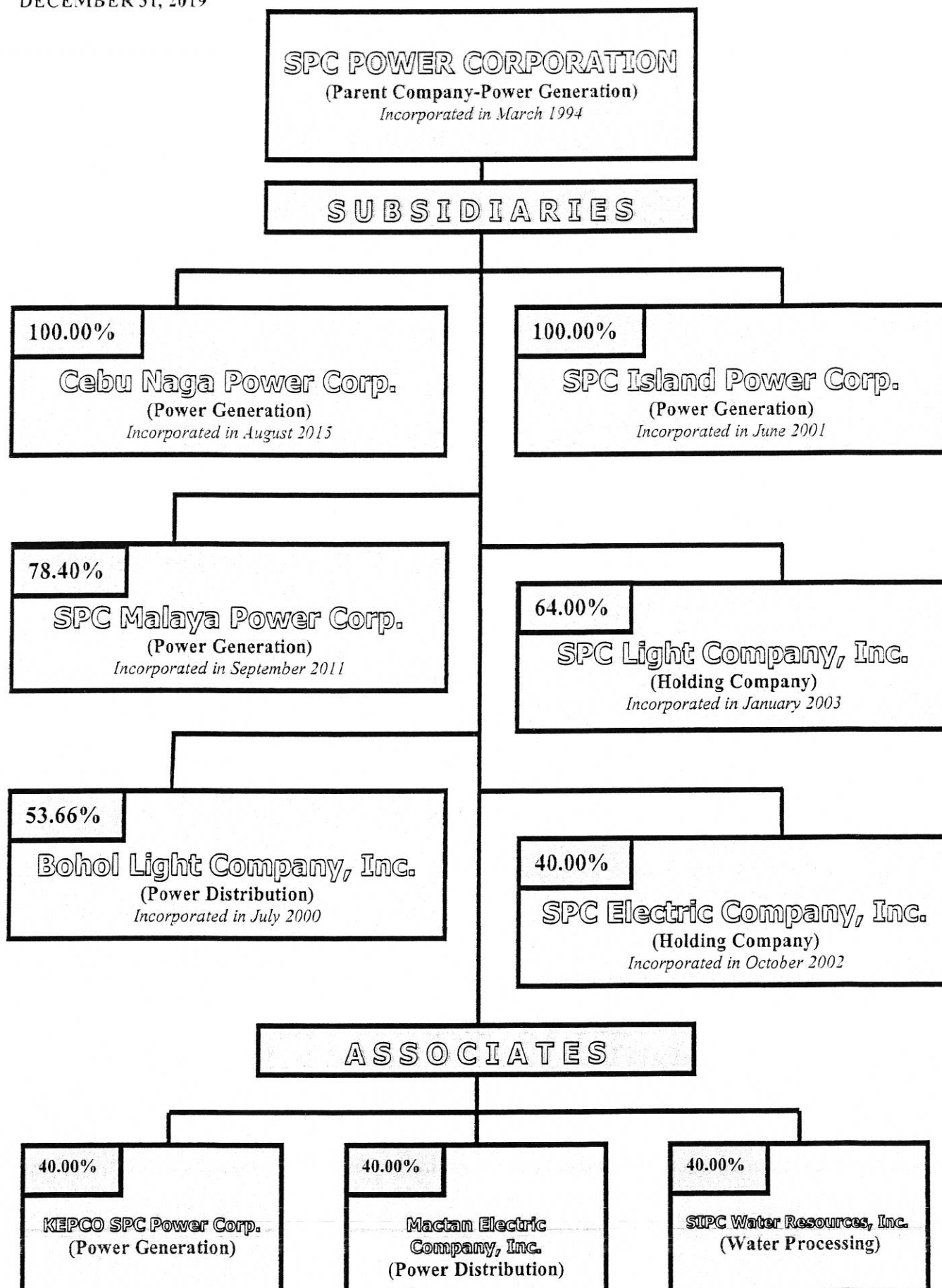
AS OF AND FOR THE YEAR ENDED DECEMBER 31, 2019

| Ratio | Formula | 2019 | 2018 |
|-----------------------|---|-------------|-------------|
| Current Ratio | Total Current Assets including Noncurrent Assets Held for Sale divided by Total Current Liabilities including Liabilities Directly Associated with Noncurrent Assets Held for Sale <div> Total Current Assets P4,106,210,017 Divide by: Total Current Liabilities 525,247,517 <hr/> Current Ratio 7.82 </div> | 7.82 | 7.33 |
| Acid Test Ratio | Quick Assets (<i>Total Current Assets less Materials and Supplies and Prepayments and Other Current Assets</i>) divided by Total Current Liabilities <div> Total Current Assets P4,106,210,017 Less: Materials and Supplies 378,365,129 Prepayments and Other Current Assets 81,543,758 <hr/> Quick Assets P3,646,301,130 Divide by: Total Current Liabilities 525,247,517 <hr/> Acid Test Ratio 6.94 </div> | 6.94 | 6.49 |
| Solvency Ratio | Total Comprehensive Income before Depreciation and Amortization divided by Total Liabilities <div> Total Comprehensive Income P1,810,182,253 Add: Depreciation and Amortization 111,109,192 <hr/> 1,921,291,445 Divide by: Total Liabilities 933,302,391 <hr/> Solvency Ratio 2.06 </div> | 2.06 | 2.16 |
| Debt-to-Equity Ratio | Total Liabilities divided by Total Equity <div> Total Liabilities P933,302,391 Divide by: Total Equity 10,162,400,012 <hr/> Debt-to-Equity Ratio 0.09 </div> | 0.09 | 0.09 |
| Asset-to-Equity Ratio | Total Assets divided by Equity Attributable to Parent <div> Total Assets P11,095,702,403 Divide by: Equity Attributable to Parent 10,006,265,498 <hr/> Asset-to-Equity Ratio 1.11 </div> | 1.11 | 1.11 |

| Ratio | Formula | 2019 | 2018 |
|------------------------------|---|--------|--------|
| Interest Rate Coverage Ratio | Earnings before Income Tax, Depreciation and Amortization (<i>Net Income plus Provision for Income Tax, Interest Expense, Depreciation and Amortization less Interest Income</i>) divided by Interest Expense Net Income ₱1,813,167,417 Add: Provision for Income Tax 148,528,774 Interest Expense 5,557,408 <hr/> ₱1,972,253,599 Less: Interest Income 102,453,133 <hr/> EBIT ₱1,869,800,411 Add: Depreciation and Amortization 111,109,192 <hr/> EBITDA ₱1,980,909,603 Divide by: Interest Expense 5,557,408 <hr/> Interest Expense Coverage Ratio 356.44 | 356.44 | 396.63 |
| Return on Equity | Total Comprehensive Income divided by Average Total Equity (<i>Total Equity PY + Total Equity CY divided by 2</i>) Total Comprehensive Income ₱1,810,182,253 Total Equity CY ₱10,162,400,012 Total Equity PY 10,024,670,730 <hr/> Average Total Equity ₱10,093,535,396 Return on Equity 17.93% | 17.93% | 19.61% |
| Return on Assets | Total Comprehensive Income divided by Average Total Assets (<i>Total Assets PY + Total Assets CY divided by 2</i>) Total Comprehensive Income ₱1,810,182,253 Total Assets CY ₱11,095,702,403 Total Assets PY 10,944,584,999 <hr/> Average Total Assets ₱11,020,143,701 Return on Assets 16.43% | 16.43% | 17.43% |
| Net Profit Margin | Net Income Attributable to Parent divided by Revenue Net Income Attributable to Parent ₱1,782,279,548 Divide by: Revenue 2,799,009,238 <hr/> Net Income Margin 63.68% | 63.68% | 77.72% |

SPC POWER CORPORATION AND SUBSIDIARIES

MAP OF THE RELATIONSHIPS OF THE COMPANIES WITHIN THE GROUP
DECEMBER 31, 2019



COVER SHEET

for
AUDITED FINANCIAL STATEMENTS

SEC Registration Number

A S 0 9 4 0 0 2 3 6 5

COMPANY NAME

S P C P O W E R C O R P O R A T I O N

PRINCIPAL OFFICE (No. / Street / Barangay / City / Town / Province)

7 t h F l o o r , C e b u H o l d i n g s C e n t e
r , A r c h b i s h o p R e y e s A v e n u e , C e
b u B u s i n e s s P a r k , C e b u C i t y

Form Type

A A P F S

Department requiring the report

C R M D

Secondary License Type, if Applicable

N / A

COMPANY INFORMATION

Company's Email Address

www.spcpowergroup.com

Company's Telephone Number

(032) 232 0377

Mobile Number

N/A

No. of Stockholders

775

Annual Meeting (Month / Day)

06/25

Fiscal Year (Month / Day)

12/31

CONTACT PERSON INFORMATION

The designated contact person MUST be an Officer of the Corporation

Name of Contact Person

Jaime M. Balisacan

Email Address

jmbalisacan@spcpower.com

Telephone Number/s

(032) 232 0377

Mobile Number

(0917) 323 1469

CONTACT PERSON'S ADDRESS

7th Floor, Cebu Holdings Center, Archbishop Reyes Avenue, Cebu Business park, Cebu City

NOTE 1: In case of death, resignation or cessation of office of the officer designated as contact person, such incident shall be reported to the Commission within thirty (30) calendar days from the occurrence thereof with information and complete contact details of the new contact person designated.

2: All Boxes must be properly and completely filled-up. Failure to do so shall cause the delay in updating the corporation's records with the Commission and/or non-receipt of Notice of Deficiencies. Further, non-receipt of Notice of Deficiencies shall not excuse the corporation from liability for its deficiencies.





Republika ng Pilipinas
Kagawaran ng Pananalapi
Kawanihan ng Rentas Internas

eFPS Payment Details

TIN : 003 - 868 - 043 - 000
Name : SPC POWER CORPORATION
Tax Period : 12/31/2019
Reference Number : 122000035415284
Tax Type : IT - Annual Income Tax Return for Corporation and Partnerships

Payment Transaction Number : 204085872
Date : 04/15/2020
Cash Amount Paid : 14,917,058.00
Bank : 010000 - UCPB

| Origin | Bank Code | Amount | Number | Date | Status | Message | CBR BCS No. |
|----------------------|-----------|---------------|----------------------|------------|------------|----------------|-------------|
| Online Confirmation | 010000 | 14,917,058.00 | 646344 | 04/16/2020 | Authorized | 0 - Successful | 56631 |
| Batch Confirmation | 010000 | 14,917,058.00 | 00000000000000646344 | 04/16/2020 | Authorized | 0 - Successful | 56631 |
| Batch Acknowledgment | 010000 | 14,917,058.00 | 00000000000000646344 | 04/16/2020 | Authorized | 0 - Successful | 56631 |

Payment Transaction Number : 204085790
Date : 04/15/2020
Cash Amount Paid : 14,917,058.00
Bank : 010000 - UCPB

| Origin | Bank Code | Amount | Number | Date | Status | Message | CBR BCS No. |
|-----------------------------|-----------|---------------|--------|------|---------|--|-------------|
| Pending Online Confirmation | 010000 | 14,917,058.00 | - | | Unknown | 60 - Details of Payment were redirected to the corresponding Bank. Please verify with your Bank. | 0 |

No Available Batch Confirmation
No Available Batch Acknowledgement

Total Payments (Successful/Unsuccessful): 29,834,116.00
Total Payments (Successful) : 14,917,058.00

Print

Close



SPC Power Corporation

STATEMENT OF MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL STATEMENTS

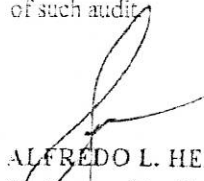
The Management of SPC POWER CORPORATION (the Parent Company) is responsible for the preparation and fair presentation of the financial statements including the schedules attached therein, for the years ended December 31, 2019 and 2018, in accordance with the prescribed financial reporting framework indicated therein, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

The Board of Directors is responsible for overseeing the Parent Company's financial reporting process.

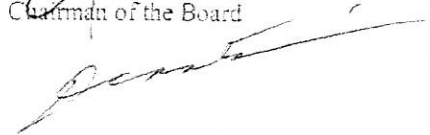
The Board of Directors reviews and approves the financial statements including the schedules attached therein and submits the same to the stockholders.

SyCip Gorres Velayo & Co., the independent auditor appointed by the stockholders, has audited the financial statements of the Parent Company in accordance with Philippine Standards on Auditing, and in its report to the stockholders, has expressed its opinion on the fairness of presentation upon completion of such audit.



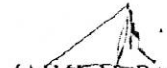
ALFREDO L. HENARES

Chairman of the Board



DENNIS T. VILLAREAL

Chief Executive Officer/President



JAIME M. BALISACAN

Treasurer/Senior Vice President – Finance and Administration

Signed this 7th day of May 2020.



Building a better
working world

SGV James C. Yano & Co.
Unit 1701 & 1704 InsularLife
Cebu Business Center
Marianas Avenue corner
Bijuan Plaza
Cebu Business Park,
Cebu City
6000 Cebu, Philippines

Tel. (032) 133 2947 ext. 4
Fax. (032) 133 2911
e-mail: sgvc@sgv.com.ph

BOA-PRC Reg. No. 0001
October 4, 2013, valid until August 24, 2021
SEC Accreditation No. 00713-PR-5 (Group A)
November 6, 2018, valid until November 5, 2021

INDEPENDENT AUDITOR'S REPORT

The Board of Directors and the Stockholders
SPC Power Corporation
7th Floor, Cebu Holdings Center
Archbishop Reyes Avenue, Cebu Business Park
Cebu City

Report on the Audit of the Parent Company Financial Statements

Opinion

We have audited the parent company financial statements of SPC Power Corporation (Parent Company), which comprise the parent company statements of financial position as at December 31, 2019 and 2018, and the parent company statements of comprehensive income, parent company statements of changes in equity and parent company statements of cash flows for each of the three years in the period ended December 31, 2019, and notes to the parent company financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying parent company financial statements present fairly, in all material respects, the financial position of the Parent Company as at December 31, 2019 and 2018, and its financial performance and its cash flows for each of the three years in the period ended December 31, 2019, in accordance with Philippine Financial Reporting Standards (PFRSs).

Basis for Opinion

We conducted our audits in accordance with Philippine Standards on Auditing (PSAs). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Parent Company Financial Statements* section of our report. We are independent of the Parent Company in accordance with the Code of Ethics for Professional Accountants in the Philippines (Code of Ethics) together with the ethical requirements that are relevant to our audit of the parent company financial statements in the Philippines, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the Code of Ethics. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Responsibilities of Management and Those Charged with Governance for the Parent Company Financial Statements

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

