

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

Pension Expense

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

The net defined benefit liability or asset is the aggregate of the present value of the defined benefit obligation at the end of the reporting period reduced by the fair value of plan assets, adjusted for any effect of limiting a net defined benefit asset to the asset ceiling. The asset ceiling is the present value of any economic benefits available in the form of refunds from the plan or reductions in future contributions to the plan.

Defined benefit costs comprise the following:

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

Service costs which include current service costs, past service costs and gains or losses on non-routine settlements are recognized as expense in the parent company-statement of comprehensive income. Past service costs are recognized when plan amendment or curtailment occurs. These amounts are calculated periodically by independent qualified actuaries.

Net interest on the net defined benefit liability or asset is the change during the period in the net defined benefit liability that arises from the passage of time which is determined by applying the discount rate based on government bonds to the net defined benefit liability or asset. Net interest on the net defined benefit liability is recognized as expense or income in the parent company statement of comprehensive income.

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

Plan assets are assets that are held by a long-term employee benefit fund or qualifying insurance policies. Plan assets are not available to the creditors of the Parent Company, nor can they be paid directly to the Parent Company. Fair value of plan assets is based on market price information. When no market price is available, the fair value of plan assets is estimated by discounting expected future cash flows using a discount rate that reflects both the risk associated with the plan assets and the maturity or expected disposal date of those assets (or, if they have no maturity, the expected period until the settlement of the related obligations). If the fair value of the plan assets is higher than the present value of the defined benefit obligation, the measurement of the resulting defined benefit asset is limited to the present value of economic benefits available in the form of refunds from the plan or reductions in future contributions to the plan.



Income Tax

Current Income Tax. Current income tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted as at the reporting date.

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

Related Party Transactions

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

Provisions

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

Foreign Currency-Denominated Transactions

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

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

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

Earnings per Share

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



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

Segment Reporting

For management purposes, the Parent Company is organized into business units based on their services and has only one single operating segment as of December 31, 2021 and 2020. No operating segments have been aggregated to form the Parent Company's single operating segment. Management monitors the operating results of its business units separately for the purpose of making decisions about resource allocation and performance assessment. Segment performance is evaluated based on operating profit or loss and is measured consistently with operating profit or loss in the parent company financial statements.

Contingencies

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

Events After the Reporting Period

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

4. Significant Accounting Judgments and Estimates

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

Judgments

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

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

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



Significant judgments in revenue recognition are as follows:

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

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

For power generation and ancillary services where capacity and energy dispatched are separately identified, these two obligations are to be combined as one performance obligation since these are not distinct within the context of the contract as the buyer cannot benefit from the contracted capacity alone without the corresponding energy and the buyer cannot obtain energy without contracting a capacity.

The combined performance obligation qualifies as a series of distinct goods or services that are substantially the same and have the same pattern of transfer since the delivery of energy every month are distinct services which are all recognized over time and have the same measure of progress.

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

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

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



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

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

- *Allocation of variable consideration.* Variable consideration may be attributable to the entire contract or to a specific part of the contract. For power generation, power and ancillary services revenue streams which are considered as series of distinct goods or services that are substantially the same and have the same pattern of transfer, the Parent Company allocates the variable amount that is no longer subject to constraint to the satisfied portion (i.e., month) which forms part of the single performance obligation, and forms part of the monthly billing of the Parent Company.

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

Estimates and Assumptions

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

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

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



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

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

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

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

An increase in the Parent Company's allowance for expected credit losses of trade and other receivables will increase the Parent Company's recorded expenses and decrease current assets. As of December 31, 2021 and 2020, allowance for expected credit losses amounted to ₱6.9 million and ₱3.7 million, respectively (see Notes 5 and 7). These receivables, net of allowance for expected credit losses, amounted to ₱199.0 million and ₱76.1 million as of December 31, 2021 and 2020, respectively (see Note 7).

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

No allowance for losses is recorded as of December 31, 2021 and 2020 (see Note 8). The carrying value of the materials and supplies amounted to ₱80.2 million and ₱70.3 million as of December 31, 2021 and 2020, respectively (see Note 8).

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



The Parent Company recognized depreciation expense amounting to ₱40.9 million, ₱40.1 million and ₱35.9 million in 2021, 2020 and 2019, respectively (see Note 19). As of December 31, 2021 and 2020, the aggregate net book values of property, plant and equipment subjected to depreciation amounted to ₱399.9 million and ₱418.7 million, respectively (see Note 12).

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

The Parent Company recognized impairment loss amounting to nil in 2021, 2020 and 2019 (see Note 17). As of December 31, 2021 and 2020, the aggregate net book values of property, plant and equipment amounted to ₱399.9 million and ₱418.7 million, respectively (see Note 12).

Estimating Impairment of Investments in Associates and Investments in Subsidiaries. The Parent Company assesses whether there are any indicators of impairment on investments in associates and subsidiaries at each reporting date. Investments in associates and subsidiaries are tested for impairment whenever events or changes in circumstances indicate that the carrying amount of the asset may not be recoverable. The recoverable amount of investments in associates and investments subsidiaries is based on fair value less cost to sell. Fair value less cost to sell is determined to be the amount obtainable from the sale of the underlying net assets of the associate or subsidiary. The carrying amounts of investments in associates as of December 31, 2021 and 2020 amounted to ₱2,852.5 million (see Note 10). The carrying amounts of investments in subsidiaries as of December 31, 2021 and 2020 amounted to ₱341.2 million (see Note 11). Based on management's assessment, the Parent Company's investments in associates and investments in subsidiaries are fairly stated, thus no impairment loss was recognized in 2021, 2020 and 2019.

Estimating Realizability of Deferred Income Tax Assets. The Parent Company reviews the carrying amounts of deferred income tax assets at each reporting date and reduces deferred income tax assets to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax assets to be utilized. However, there is no assurance that the Parent Company will utilize all or part of the deferred income tax assets. The Parent Company's assessment on the recognition of deferred income tax assets on deductible temporary differences is based upon the likely timing and level of future taxable profits determined from the tax planning strategies of the Parent Company. The Parent Company has no deferred income tax assets as of December 31, 2021 and 2020 (see Note 20).

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

Fair value of financial assets as of December 31, 2021 and 2020 amounted to ₱2,831.6 million and ₱3,513.8 million, respectively. Fair value of financial liabilities as of December 31, 2021 and 2020 amounted to ₱116.1 million and ₱57.8 million, respectively.



5. Related Party Transactions

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

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

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

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

- Management services rendered to SIPC where management fee earned by the Parent Company amounted to ₱0.1 million in 2021 and ₱0.4 million in 2020 and 2019 is included as part of "Others - net" in the parent company statements of comprehensive income.
- In 2019, the Parent Company sold some items from its noncurrent asset held for sale to SIPC for ₱6.2 million including hauling costs incurred by the Parent Company.
- Extension of noninterest-bearing advances to SIPC for working capital requirements and receivables relating to the purchase of materials and supplies made by the Parent Company on behalf of SIPC. Outstanding receivables related to these transactions amounted to nil and ₱0.1 million as of December 31, 2021 and 2020, respectively.
- Extension of noninterest-bearing advances to Bohol Light Company, Inc. (BLCI) for working capital requirements. Outstanding advances amounted to ₱0.2 million and ₱0.6 million as of December 31, 2021 and 2020.
- Cash dividends earned from subsidiaries, SIPC, BLCI, SPC Electric Company, Inc. (SECI), SPC Malaya Power Corporation (SMPC), and SPC Light Company, Inc. (SLCI) amounted to ₱359.0 million, ₱339.7 million and ₱364.6 million in 2021, 2020 and 2019, respectively (see Note 11).
- Rendering of management and other services to Mactan Electric Company, Inc. (MECO), an associate, amounting to ₱40.0 million, ₱120.0 million and ₱123.6 million in 2021, 2020 and 2019, are recorded as "Service income" in the parent company statements of comprehensive income.
- Extension of short-term, noninterest-bearing advances to KEPCO SPC Power Corporation (KEPCO SPC), an associate, for the development of the 2x100 MW Circulating Fluidized Bed Combustion (CFBC) Boiler Coal-Fired Power Plant in Naga, Cebu. Outstanding advances to KEPCO SPC amounted to ₱0.7 million as of December 31, 2021 and 2020, respectively.



- Cash dividends received from associates (KEPCO SPC and MECO) amounted to ₱1,146.8 million, ₱1,381.0 million and ₱1,412.0 million in 2021, 2020 and 2019, respectively (see Note 10).
- Rentals on office spaces from SPEC Properties, Inc. (SPEC) and SII Properties Development Corporation (SPDC) with lease terms ranging from 2–3 years amounted to ₱4.4 million in 2021 and ₱4.3 million in 2020 and 2019. Upon adoption of PFRS 16, lease liabilities were recognized on the unpaid rentals until the end of lease term for these office spaces.
- Extension/availment of noninterest-bearing advances to/from related parties for working capital requirements.

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

2021				
Category	Transaction	Outstanding Balance - Receivable (Payable)	Terms	Conditions
Subsidiaries				
Management services:				
SIPC*	₱102,679	₱-	60-day; Noninterest-bearing	Unsecured
Extension (availment) of advances:				
SIPC**	324,572	138,849	60-day; Noninterest-bearing	Unsecured; No impairment
SIPC***	69,090	(22,606)	60-day; Noninterest-bearing	Unsecured
BLCI**	168,856	203,996	60-day; Noninterest-bearing	Unsecured; No impairment
BLCI***	-	(129,251)	60-day; Noninterest-bearing	Unsecured
SMPC**	8,014	26,183	60-day; Noninterest-bearing	Unsecured; No impairment
SECI**	9,864	15,922	60-day; Noninterest-bearing	Unsecured; No impairment
SLCI**	9,164	16,112	60-day; Noninterest-bearing	Unsecured; No impairment
CNPC**	17,807	176,962	60-day; Noninterest-bearing	Unsecured; No impairment
Dividend income (see Note 11):				
SIPC	349,999,965	-	Due and demandable	Unsecured
BLCI	8,977,497	4,488,749	Due and demandable	Unsecured; No impairment
Associates				
Management services:				
MECO	40,002,385	-	60-day; Noninterest-bearing	Unsecured
Extension (availment) of advances:				
KEPCO SPC**	-	763,112	60-day; Noninterest-bearing	Unsecured; No impairment
MECO	939	939	60-day; Noninterest-bearing	Unsecured; No impairment
Dividend income (see Note 10):				
KEPCO SPC	1,026,799,946	-	Due and demandable	Unsecured
MECO	119,999,867	79,999,911	Due and demandable	Unsecured; No impairment
Affiliates (Companies Under Common Ownership)				
Lease of office space: ****				
SPEC	3,651,136	(2,738,352)	30-day; Noninterest-bearing;	Unsecured

(Forward)



2021				
Category	Transaction	Outstanding Balance - Receivable (Payable)	Terms	Conditions
Lease of office space:**** SPDC	₱765,946	(₱572,066)	30-day; Noninterest-bearing; 3% annual escalation	Unsecured
Extension (availment) of advances:				
Bohol Water Utilities, Inc. (BWUI)**	146,762	212,695	60-day; Noninterest-bearing	Unsecured; No impairment
SPDC**	94,042	416,681	60-day; Noninterest-bearing	Unsecured; No impairment
SPDC***	294,551	(509,711)	60-day; Noninterest-bearing	Unsecured
Salcon International, Inc. (SII)**	51,184	139,736	60-day; Noninterest-bearing	Unsecured; No impairment
Salcon Philippines, Inc. (SPI)**	45,500	127,475	60-day; Noninterest-bearing	Unsecured; No impairment
SIPC Water Resources, Inc. (SWRI)**	30,041	223,586	60-day; Noninterest-bearing	Unsecured; No impairment
Western Panay Hydropower Corp. (WPHC)**	29,041	126,578	60-day; Noninterest-bearing	Unsecured; No impairment
SPEC**	70,197	202,945	60-day; Noninterest-bearing	Unsecured; No impairment
KV Holdings, Inc.**	8,564	26,111	60-day; Noninterest-bearing	Unsecured; No impairment
KEPCO Philippines Holdings, Inc.***	-	(497,043)	60-day; Noninterest-bearing	Unsecured
Officers and employees*	2,767,923	3,735,784	60-day; Noninterest-bearing	Unsecured; No impairment

* Under "Trade and other receivables"

** Under "Due from related parties"

*** Under "Due to related parties"

**** Under "Lease liabilities"

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

(Forward)



2020				
Category	Transaction	Outstanding Balance - Receivable (Payable)	Terms	Conditions
Dividend income (see Note 11):				
SECI	P7,565,518	P-	Due and demandable	Unsecured
SLCI	9,204,715	-	Due and demandable	Unsecured
Associates				
Management services:				
MECO	120,007,156	-	60-day; Noninterest-bearing	Unsecured
Extension (availment) of advances:				
KEPCO SPC**	-	719,579	60-day; Noninterest-bearing	Unsecured; No impairment
MECO	990	-	60-day; Noninterest-bearing	Unsecured
Dividend income (see Note 10):				
KEPCO SPC	1,357,016,938	-	Due and demandable	Unsecured
MECO	23,999,973	-	Due and demandable	Unsecured,
Affiliates (Companies Under Common Ownership)				
Lease of office space: ****				
SPEC	3,651,136	(912,784)	30-day; Noninterest-bearing;	Unsecured
SPDC	691,317	(172,829)	30-day; Noninterest-bearing; 3% annual escalation	Unsecured
Extension (availment) of advances:				
Bohol Water Utilities, Inc. (BWUI)**	160,358	231,929	60-day; Noninterest-bearing	Unsecured; No impairment
SPDC**	70,659	322,638	60-day; Noninterest-bearing	Unsecured; No impairment
SPDC***	215,160	(215,160)	60-day; Noninterest-bearing	Unsecured
Salcon International, Inc. (SII)**	37,400	88,552	60-day; Noninterest-bearing	Unsecured; No impairment
Salcon Philippines, Inc. (SPI)**	37,025	81,975	60-day; Noninterest-bearing	Unsecured; No impairment
SIPC Water Resources, Inc. (SWRI)**	-	193,545	60-day; Noninterest-bearing	Unsecured; No impairment
Western Panay Hydropower Corp. (WPHC)**	-	97,537	60-day; Noninterest-bearing	Unsecured; No impairment
Pure and Pam, Inc.**	-	75,000	60-day; Noninterest-bearing	Unsecured; No impairment
SPEC**	65,895	132,749	60-day; Noninterest-bearing	Unsecured; No impairment
KV Holdings, Inc.**	13,615	17,547	60-day; Noninterest-bearing	Unsecured; No impairment
KEPCO Philippines Holdings, Inc.***	-	(497,043)	60-day; Noninterest-bearing	Unsecured
Officers and employees*	5,793,636	5,064,286	60-day; Noninterest-bearing	Unsecured

* Under "Trade and other receivables"

** Under "Due from related parties"

*** Under "Due to related parties"

**** Under "Lease liabilities"



2019				
Category	Transaction	Outstanding Balance - Receivable (Payable)	Terms	Conditions
Subsidiaries				
Management services:				
SIPC*	P410,714	P-	60-day; Noninterest-bearing	Unsecured
Sale of LBGT (see Note 7):				
SIPC*	6,192,074	6,192,074	Due and demandable	Unsecured; No impairment
Extension (availment) of advances:				
SIPC**	1,123,075	1,123,075	60-day; Noninterest-bearing	Unsecured; No impairment
SIPC***	2,916,098	(2,659,157)	60-day; Noninterest-bearing	Unsecured
BLCI**	663,545	569,018	60-day; Noninterest-bearing	Unsecured; No impairment
BLCI***	45,811	(115,501)	60-day; Noninterest-bearing	Unsecured
SMPC**	16,155	16,155	60-day; Noninterest-bearing	Unsecured; No impairment
SECI**	6,032	6,032	60-day; Noninterest-bearing	Unsecured; No impairment
SLCI**	6,032	6,032	60-day; Noninterest-bearing	Unsecured; No impairment
CNPC**	19,550	141,752	60-day; Noninterest-bearing	Unsecured; No impairment
Dividend income (see Note 11):				
SIPC	349,999,930	-	Due and demandable	Unsecured
BLCI	14,962,495	5,984,999	Due and demandable	Unsecured; No impairment
SECI	5,599,999	-	Due and demandable	Unsecured
Associates				
Management services:				
MECO	123,643,736	-	60-day; Noninterest-bearing	Unsecured
Extension (availment) of advances:				
KEPCO SPC**	-	719,579	Due and demandable	Unsecured; No impairment
Dividend income (see Note 10):				
KEPCO SPC	1,328,024,392	-	Due and demandable	Unsecured
MECO	83,999,907	-	Due and demandable	Unsecured
Affiliates (Companies Under Common Ownership)				
Lease of office space: ****				
SPEC	3,651,136	(1,217,045)	30-day; Noninterest-bearing;	Unsecured
SPDC	691,317	(230,439)	30-day; Noninterest-bearing; 3% annual escalation	Unsecured
Extension (availment) of advances:				
Bohol Water Utilities, Inc. (BWUI)**	3,429,499	123,972	60-day; Noninterest-bearing	Unsecured; No impairment
SPDC**	87,655	251,980	60-day; Noninterest-bearing	Unsecured; No impairment
SPDC***	261,723	(108,038)	60-day; Noninterest-bearing	Unsecured
Salcon International, Inc. (SII)**	51,152	51,152	60-day; Noninterest-bearing	Unsecured; No impairment
Salcon Philippines, Inc. (SPI)**	44,950	44,950	60-day; Noninterest-bearing	Unsecured; No impairment
SIPC Water Resources, Inc. (SWRI)**	17,518	193,545	60-day; Noninterest-bearing	Unsecured; No impairment
(Forward)				



2019				
Category	Transaction	Outstanding Balance - Receivable (Payable)	Terms	Conditions
Extension (availment) of advances:				
Western Panay Hydropower Corp. (WPHC)**	16,671	97,537	60-day; Noninterest-bearing	Unsecured; No impairment
Pure and Pam, Inc.**	-	75,000	60-day; Noninterest-bearing	Unsecured; No impairment
SPEC**	66,853	66,853	60-day; Noninterest-bearing	Unsecured; No impairment
KV Holdings, Inc.**	3,932	3,932	60-day; Noninterest-bearing	Unsecured; No impairment
KEPCO Philippines Holdings, Inc.***	-	(497,043)	60-day; Noninterest-bearing	Unsecured; No impairment
Officers and employees*	4,244,313	3,675,225	60-day; Noninterest-bearing	Unsecured; No impairment

* Under "Trade and other receivables"
 ** Under "Due from related parties"
 *** Under "Due to related parties"
 **** Under "Lease liabilities"

These transactions with related parties are generally settled in cash.

Compensation and Benefits of Key Management Personnel

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

	2021	2020	2018
Short-term benefits	₱40,318,914	₱36,466,676	₱31,488,962
Post-employment benefits	512,154	324,926	289,670
	₱40,831,068	₱36,791,602	₱31,778,632

6. Cash and Cash Equivalents

	2021	2020
Cash on hand and in banks	₱491,205,512	₱748,267,291
Short-term investments	2,133,305,052	2,681,960,290
	₱2,624,510,564	₱3,430,227,581

Cash in banks earn interest at the respective bank deposit rates. Short-term investments are made for varying periods of up to three months or less, depending on the immediate cash requirements of the Parent Company, and earn interest at the prevailing short-term investment rates. Total interest income earned amounted to ₱31.6 million, ₱47.4 million and ₱89.3 million in 2021, 2020 and 2019, respectively.



7. Trade and Other Receivables

	2021	2020
Receivable from customers:		
Independent Electricity Market Operator of the Philippines Inc. (IEMOP) (net of allowance for impairment of ₱6.9 million and ₱3.7 million in 2021 and 2020, respectively)	₱40,833,549	₱6,996,873
National Grid Corporation of the Philippines (NGCP)	29,359,540	40,216,112
Advances to officers and employees	3,735,784	5,064,286
Dividend receivable (see Note 5)	84,488,660	—
Due from related parties (see Note 5)	2,817,883	2,872,143
Receivable from SIPC (see Note 5)	—	6,192,074
Others	37,812,822	14,782,438
	₱199,048,237	₱76,123,926

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

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

Others mainly consist of nontrade receivables from third parties.

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

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

	2021	2020
At January 1	₱3,714,038	₱3,991,469
Provision (see Note 17)	3,178,892	—
Reversal of allowance	—	(277,431)
At December 31	₱6,892,930	₱3,714,038

8. Materials and Supplies

	2021	2020
On hand	₱79,839,422	₱68,029,904
In transit	347,775	2,294,073
	₱80,187,197	₱70,323,977



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

Cost of materials and supplies used in operations recognized as part of "Cost of services" amounted to ₱283.1, ₱114.0 and ₱155.5 million in 2021, 2020 and 2019, respectively, in the parent company statements of comprehensive income (see Note 16).

9. Prepayments and Other Current Assets

	2021	2020
Input VAT	₱10,749,866	₱5,123,537
Prepaid insurance	4,353,618	3,989,710
Prepaid rent	730,655	536,579
Deferred input tax	462,634	500,464
Others	3,622,932	3,615,431
	₱19,919,705	₱13,765,721

Others pertain mostly to advances and refundable deposits.

10. Investments in Associates

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

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

KEPCO SPC

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

	2021	2020
Statements of financial position:		
Current assets	₱3,295,642,541	₱3,330,256,923
Noncurrent assets	8,767,282,343	9,436,490,867
Current liabilities	849,143,657	770,666,454
Noncurrent liabilities	170,367,207	170,395,823
Equity	11,043,414,020	11,825,685,513
	2021	2020
Statements of comprehensive income:		
Revenue	₱7,401,904,359	₱7,757,801,584
Gross profit	2,789,999,501	4,000,394,743
Net income	1,781,078,822	2,782,970,368
Other comprehensive income (loss)	3,649,551	(3,208,956)
Total comprehensive income	1,784,728,373	2,779,761,412



KEPCO SPC declared and paid cash dividends to the Parent Company amounting to ₱1,026.8 million, ₱1,357.0 million and ₱1,328.0 million in 2021, 2020 and 2019, respectively (see Note 5).

MECO

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

	2021	2020
Statements of financial position:		
Current assets	₱3,003,015,589	₱2,662,925,520
Noncurrent assets	3,643,168,379	3,750,638,131
Current liabilities	1,107,062,700	893,738,932
Noncurrent liabilities	2,392,848,077	2,435,659,445
Equity	3,146,273,191	3,084,165,274
Revaluation increment on property, plant and equipment, and others	426,828,555	452,934,191
Statements of comprehensive income:		
Revenue	5,738,323,076	5,251,432,323
Gross profit	375,379,894	343,303,728
Net income	310,601,812	316,420,385
Other comprehensive income (loss)	32,020,078	5,954,400
Total comprehensive income	342,621,890	322,374,785
Income after adjustment of depreciation on appraisal increase and others	340,635,858	337,637,835

MECO declared and paid cash dividends to the Parent Company amounting to ₱120.0 million, ₱24.0 million and ₱84.0 million in 2021, 2020 and 2019, respectively (see Note 5).

Based on management's assessment, there were no indicators of impairment. No impairment loss was recognized in 2021, 2020 and 2019.

11. Investments in Subsidiaries

Details of the Parent Company's investments in subsidiaries as of December 31, 2021 and 2020 are as follows:

	Principal Activity	% of Ownership			Amount
		Direct	Indirect	Total	
SIPC	Power generation	100.00%	—	100.00%	₱274,999,995
BLCI	Power distribution	39.90%	13.76%	53.66%	45,653,125
SLCI	Holding company	40.00%	24.00%	64.00%	12,609,198
SECI	Holding company	40.00%	—	40.00%	7,565,518
CNPC	Power generation	100.00%	—	100.00%	249,995
SMPC	Power generation	40.00%	38.40%	78.40%	99,998
					₱341,177,829



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

Declared By	Date of Declaration	Record Date	Amount	
			Gross (in millions)	Per Share
2021				
SIPC	December 9, 2021	December 15, 2021	₱350.0	₱14.0 (common)
BLCI	June 2, 2021	June 7, 2021	11.3	0.15
	December 1, 2021	December 7, 2021	11.3	0.15
2020				
SIPC	December 2, 2020	December 16, 2020	₱300.0	₱12.0 (common)
BLCI	May 27, 2020	June 1, 2020	20.0	0.27
	November 4, 2020	November 15, 2020	37.5	0.50
SECI	October 2, 2020	October 15, 2020	18.9	1.00
SLCI	October 2, 2020	October 15, 2020	23.0	0.73
2019				
SIPC	November 25, 2019	December 10, 2019	₱350.0	₱14.0 (common)
BLCI	July 18, 2019	July 22, 2019	22.5	0.30
	November 20, 2019	November 30, 2019	15.0	0.20
SECI	October 4, 2019	October 7, 2019	14.0	0.74

Based on management's assessment, there were no indicators of impairment. No impairment loss was recognized in 2021, 2020 and 2019.

12. Property, Plant and Equipment

2021						
	Buildings, Plant Machinery and Equipment	Motor Vehicles	Furniture and Office Equipment	Partitions and Air Conditioners	Right-of-use Assets (see Note 23)	Total
Cost						
At January 1	₱482,879,220	₱20,549,901	₱12,023,431	₱1,184,635	₱9,263,018	₱525,900,205
Additions	21,709,321	144,600	286,115	-	-	22,140,036
Transfers	-	-	-	-	-	-
Retirement	-	(1,483,036)	(60,199)	-	(9,263,018)	(10,806,253)
At December 31	504,588,541	19,211,465	12,249,347	1,184,635	-	537,233,988
Accumulated Depreciation						
At January 1	75,102,103	14,612,993	10,435,636	906,263	6,175,346	107,232,341
Depreciation during the year (see Note 19)	35,131,169	2,054,969	556,637	67,479	3,087,672	40,897,926
Retirement	-	(1,483,036)	(48,160)	-	(9,263,018)	(10,794,214)
At December 31	110,233,272	15,184,926	10,944,113	973,742	-	137,336,053
Net Book Value	₱394,355,269	₱4,026,539	₱1,305,234	₱210,893	₱-	₱399,897,935

2021							
	Buildings, Plant Machinery and Equipment	Motor Vehicles	Furniture and Office Equipment	Partitions and Air Conditioners	Construction in Progress	Right-of-use Assets (see Note 23)	Total
Cost							
At January 1	₱477,948,149	₱17,633,805	₱11,502,066	₱912,760	₱-	₱10,658,298	₱518,655,078
Additions	4,287,989	3,559,732	521,365	271,875	643,082	-	9,284,043
Transfers	643,082	-	-	-	(643,082)	-	-
Retirement	-	(643,636)	-	-	-	(1,395,280)	(2,038,916)
At December 31	482,879,220	20,549,901	12,023,431	1,184,635	-	9,263,018	525,900,205
Accumulated Depreciation							
At January 1	41,070,648	13,570,707	9,870,330	806,771	-	3,840,904	69,159,360
Depreciation during the year (see Note 19)	34,031,455	1,685,922	565,306	99,492	-	3,729,722	40,111,897
Retirement	-	(643,636)	-	-	-	(1,395,280)	(2,038,916)
At December 31	75,102,103	14,612,993	10,435,636	906,263	-	6,175,346	107,232,341
Net Book Value	₱407,777,117	₱5,936,908	₱1,587,795	₱278,372	₱-	₱3,087,672	₱418,667,864



The Parent Company has no purchase commitments as of December 31, 2021 and 2020.

13. Other Noncurrent Assets

	2021	2020
Project development costs	₱13,775,830	₱3,484,887
Investment in proprietary club shares	8,000,000	7,400,000
Software costs (net of accumulated amortization of ₱3.6 million and ₱3.0 million in 2021 and 2020, respectively) (see Note 19)	2,433,006	3,041,257
Advances to suppliers and contractors	3,132,816	2,737,052
Others	6,592,846	6,592,846
	₱33,934,498	₱23,256,042

Project developments costs pertain to due diligence, legal and consultancy services, and other expenditures incurred in relation to the Company's acquisitions as discussed in Note 26.

In 2021, 2020 and 2019, the Parent Company recognized "Unrealized valuation gain on financial asset at FVOCI" amounting to ₱0.6 million, ₱0.1 million and ₱0.8 million, respectively, in the parent company statements of comprehensive income for its investment in proprietary club shares.

The following table shows the movement of software costs:

	2021	2020
Acquisition Cost	₱6,082,514	₱6,082,514
Accumulated Amortization		
At January 1	3,041,257	2,433,006
Amortization (see Notes 17 and 19)	608,251	608,251
At December 31	3,649,508	3,041,257
Net Book Value	₱2,433,006	₱3,041,257

14. Trade and Other Payables

	2021	2020
Trade	₱98,197,245	₱35,201,717
Nontrade	41,661,751	30,861,948
Accrued expenses:		
Withholding taxes and other statutory liabilities	8,846,948	6,921,177
Terminal leave pay	5,979,755	5,979,755
Accrued rent	838,678	1,485,588
Others	2,134,365	2,293,526
Due to related parties (see Note 5)	1,164,211	2,426,387
	₱158,822,953	₱85,170,098

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



Nontrade payables include accrual for deferred output tax of ₱29.5 million and ₱21.9 million as of December 31, 2021 and 2020, respectively, and various accounts with nontrade suppliers and contractors.

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

15. Equity

Capital Stock

There were no changes in the Parent Company's authorized, issued and outstanding common shares as of December 31, 2021 and 2020:

Issued shares	1,569,491,900
Treasury shares	(72,940,097)
<u>Issued and outstanding shares</u>	<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, 2021, the Parent Company has 808 stockholders including 93 depository participants counted as one stockholder each.

As of December 31, 2021 and 2020, the Parent Company complied with the Minimum Public Ownership requirement of the PSE for listed entities.

Dividends

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

Date of Declaration	Record Date	Payment Date	Amount	
			Gross (in millions)	Per Share
2021				
April 7, 2021	April 23, 2021	April 30, 2021	₱598.6	₱0.40
May 28, 2021	June 14, 2021	June 22, 2021	897.9	0.60
December 9, 2021	December 23, 2021	December 27, 2021	823.1	0.55
2020				
May 7, 2020	May 22, 2020	May 29, 2020	598.6	0.40
December 2, 2020	December 21, 2020	December 28, 2020	598.6	0.40
2019				
November 25, 2019	December 10, 2019	December 17, 2019	1,047.6	0.70
April 4, 2019	April 12, 2019	April 30, 2019	598.6	0.40

Retained Earnings

Retained earnings are also restricted for dividend declaration to the extent of the acquisition price of the treasury shares amounting to ₱131.0 million as of December 31, 2021 and 2020.



Appropriation

On November 28, 2018, the BOD of the Parent Company approved the following: (i) reversal of ₱850.0 million appropriation of retained earnings for the construction of a CFBC coal-fired thermal power plant with a capacity of at least 300 MW due to the adverse Supreme Court decision that led to the return of the Naga Power Plant Complex to PSALM pursuant to a Memorandum of Agreement and Certificate of Turnover executed between the Parent Company and PSALM on July 9, 2018 and July 13, 2018, respectively (see Note 25); (ii) reversal of ₱500.0 million appropriation of retained earnings for two run-of-river hydro-electric power plant projects in Palawan due to unsuccessful conclusion of final studies/negotiations; and (iii) appropriation of ₱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 BOD 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, (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, and (iii) confirmation of the 2018 appropriation of retained earnings amounting to ₱500 million for 1Bohol Power Project that will serve the long-term power requirements of three distribution utilities in Bohol starting December 26, 2023.

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

Earnings per Share

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

	2021	2020	2019
Net income	₱1,575,394,285	₱1,847,397,599	₱1,833,928,321
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	₱1.05	₱1.23	₱1.23

There are no potentially dilutive common stocks issued as of December 31, 2021, 2020 and 2019.



Capital Management

The Parent Company considers the following as its core economic capital and is not subject to any externally imposed capital requirements. As of December 31, 2021 and 2020, the Parent Company's core capital amounted as follows:

	2021	2020
Capital stock	₱1,569,491,900	₱1,569,491,900
Additional paid-in capital	86,810,752	86,810,752
Retained earnings	4,844,861,443	5,589,122,453
Treasury stock	(131,008,174)	(131,008,174)
	₱6,370,155,921	₱7,114,416,931

16. Plant Operations

	2021	2020	2019
Fuel, lubricants and chemicals (see Note 8)	₱270,659,568	₱101,899,226	₱141,732,619
Depreciation (see Note 19)	35,131,169	34,031,455	30,304,372
Personnel costs (see Note 18)	20,733,190	18,971,221	16,809,283
Spares, materials and supplies (see Note 8)	12,415,583	12,100,838	13,812,369
Purchased power	3,846,572	2,300,375	2,916,203
Repairs and maintenance	2,636,872	3,623,921	4,898,701
Taxes and licenses	528,687	20,620	215,362
Others (see Note 25)	7,793,296	6,671,699	6,711,389
	₱353,744,937	₱179,619,355	₱217,400,298

17. General and Administrative Expenses

	2021	2020	2019
Personnel costs (see Note 18)	₱49,368,334	₱41,547,310	₱37,035,069
Business development	18,903,369	14,630,833	44,453,037
Shared expenses	16,799,664	14,962,804	13,900,005
Directors' fees	11,648,792	12,336,758	11,471,937
Professional fees	10,808,450	12,832,395	10,799,596
Insurance	7,128,149	8,288,055	7,850,796
Depreciation and amortization (see Note 19)	6,375,008	6,688,693	6,240,140
Taxes and licenses	4,483,867	1,160,894	32,674,501
Provisions (see Notes 7)	3,178,892	—	216,047
Rentals (see Notes 5 and 23)	3,157,626	3,377,925	1,649,624
Repairs and maintenance	3,145,072	3,437,231	4,374,999
Association dues	2,078,264	1,766,897	1,824,828
Communications	2,044,361	2,480,788	2,494,314
Corporate social responsibility	1,417,610	3,895,715	2,359,771
Transportation and travel	1,234,975	2,221,577	5,288,144
Office supplies	689,321	917,562	1,178,912
Power and water	434,387	622,292	774,773
Freight and handling	107,399	110,877	167,737
Entertainment, amusement and recreation	29,035	199,222	1,054,384
Others	4,185,398	4,519,915	4,490,638
	₱147,217,973	₱135,997,743	₱190,299,252

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



18. Personnel Costs

	2021	2020	2019
Salaries and wages	₱46,015,929	₱41,423,652	₱37,166,999
Pension expense (see Note 21)	3,900,978	2,636,752	1,453,199
Other employee benefits	20,184,617	16,458,127	15,224,154
	₱70,101,524	₱60,518,531	₱53,844,352

19. Depreciation and Amortization

	2021	2020	2019
Depreciation of property, plant and equipment			
Plant operations (see Note 16)	₱35,131,169	₱34,031,455	₱30,304,372
General and administrative (see Note 17)	5,766,757	6,080,442	5,631,889
	40,897,926	40,111,897	35,936,261
Amortization of software costs:			
General and administrative (see Note 17)	608,251	608,251	608,251
	₱41,506,177	₱40,720,148	₱36,544,512

20. Income Tax

The reconciliation between the amounts of provision for income tax computed at the statutory tax rate to provision for income tax in the parent company statements of comprehensive income for the years ended December 31, 2021, 2020 and 2019 follows:

	2021	2020	2019
Income before income tax	₱1,603,075,786	₱1,896,274,646	₱1,869,403,084
Provision for income tax computed at 25% for 2021 and 30% for 2020 and 2019	₱400,768,947	₱568,882,394	₱560,820,925
Adjustments to income tax resulting from:			
Nontaxable dividend income	(376,444,319)	(516,218,874)	(534,776,017)
Interest income already subjected to final tax	(7,905,405)	(14,208,897)	(26,804,230)
Impact of OSD	15,572,945	8,266,868	35,592,788
Others	(4,310,667)	2,155,556	641,297
	₱27,681,501	₱48,877,047	₱35,474,763

As of December 31, 2021 and 2020, the Company has unrecognized deferred tax asset related to its allowance for impairment of receivables and pension liability amounting to ₱3.8 million and ₱1.5 million, respectively, because management believes that these items may have no possible future deductible benefit when these will be reversed, settled or realized.

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



November 26, 2008, the BIR issued Revenue Regulations 16-2008 for the implementing guidelines of the law.

In 2021, 2020 and 2019, the Parent Company availed of the OSD in the computation of its taxable income.

Corporate Recovery and Tax Incentives for Enterprises (CREATE) Act

On February 3, 2021, the House of Representatives and the Senate have ratified the Bicameral Committee's version of the proposed "Corporate Recovery and Tax Incentives for Enterprises Act" or "CREATE Bill". The same was submitted to the Office of the President on February 24, 2021 for his review and was later on signed into law on March 26, 2021.

Provisions under the CREATE Bill include reductions in corporate income tax rate from 30% to 25% for large domestic corporations (i.e., those with total assets of more than ₱100 million, excluding the value of the land on which the entity's office, plant and equipment are situated, and taxable income of more than ₱5 million) and 20% for small and medium domestic corporations (i.e., those that do not breach the aforementioned threshold during the particular taxable year) with effectivity date of July 1, 2020.

PAS 12, *Income Taxes*, requires current and deferred income taxes to be measured with reference to the tax rates and laws, as enacted or substantively enacted by the end of the reporting period. Accordingly, the Parent Company does not reflect in its financial statements the amounts of income taxes calculated following the provisions of CREATE Bill since the same was not yet enacted or substantively enacted as of December 31, 2020.

21. Pension Plan

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

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

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

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

	2021	2020
Current service cost	₱3,835,475	₱2,584,013
Net interest cost on benefit obligation	65,503	52,739
	₱3,900,978	₱2,636,752



Remeasurement loss recognized under "Other comprehensive income" in the parent company statements of comprehensive income amounted to ₱5.1 million and ₱2.3 million in 2021 and 2019, while remeasurement gain recognized in 2020 amounted to ₱2.0 million.

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

	2021	2020
At January 1	₱28,912,164	₱25,098,333
Current service cost	3,835,475	2,584,013
Interest cost	1,416,696	1,229,818
Benefits paid	(385,054)	—
Remeasurement loss due to:		
Experience adjustments	2,342,921	—
Changes in financial assumptions	(245,649)	—
At December 31	₱35,876,553	₱28,912,164

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

	2021	2020
At January 1	₱27,575,364	₱24,022,023
Gains (losses) on return on plan assets	(3,044,923)	1,967,989
Interest income included in net interest cost	1,351,193	1,177,079
Contributions to the retirement fund	1,889,099	408,273
Benefits paid	(385,054)	—
At December 31	₱27,385,679	₱27,575,364

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

	2021	2020
At January 1	₱1,336,800	₱1,076,310
Pension expense for the year	3,900,978	2,636,752
Remeasurement loss (gain) on employee benefits	5,142,195	(1,967,989)
Contribution to the retirement fund	(1,889,099)	(408,273)
At December 31	₱8,490,874	₱1,336,800

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

	2021	2020
Cash and cash equivalents	₱8,005,290	₱9,304,161
Investments in government securities	19,241,227	17,163,905
Accrued interest income	156,989	140,195
Others	—	981,880
Total assets	27,403,506	27,590,141
Total liabilities	17,827	14,777
Fair value of plan assets	₱27,385,679	₱27,575,364



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

The Parent Company expects to contribute to the retirement fund in 2021.

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

	2021	2020
Discount rate	5.07%	4.90%
Future salary increase rate	6.00%	6.00%

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

	Increase (Decrease)	Present Value Change of Defined Benefit Obligation	
		2021	2020
Discount rate	+100 basis points	(P1,360,722)	(P2,338,386)
	-100 basis points	1,580,135	40,424
Salary increase rate	+100 basis points	1,703,449	134,538
	-100 basis points	(1,503,374)	(2,449,129)

The weighted average duration of the benefit payments is approximately 15.20 and 15.57 years as of December 31, 2021 and 2020. 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	2021	2020
Less than one year	P21,256,049	P1,437,559
One year to less than five years	8,311,265	11,082,700
Five years to less than 10 years	11,494,691	8,836,257
10 years to less than 15 years	9,948,263	8,380,259
15 years to less than 20 years	20,593,742	9,954,711
20 years and above	42,974,318	30,409,922
	P114,578,328	P70,101,408

22. Financial Risk Management Objectives and Policies

The Parent Company's principal financial instruments comprise of cash and cash equivalents and trade and other payables. The Parent Company has various other financial assets and liabilities such as trade and other receivables and trade and other payables.

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



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

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

Liquidity Risk

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

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

2021				
	Total	Current	1 to 30 Days	Over 30 Days
Financial Assets				
At amortized cost:				
Cash and cash equivalents	₱2,624,510,564	₱2,624,510,564	₱-	₱-
Trade and other receivables	199,048,237	148,803,218	20,471,014	29,774,005
	2,823,558,801	2,773,313,782	20,471,014	29,774,005
At FVOCI:				
Investment in proprietary club shares	8,000,000	-	-	8,000,000
	2,831,558,801	2,773,313,782	20,471,014	37,774,005
Financial Liabilities				
Other financial liabilities:				
Trade and other payables*				
Trade	98,197,245	92,157,737	948,095	5,091,413
Non-trade	6,174,539	1,806,091	66,544	4,301,904
Accrued expenses	7,904,261	934,551	59,338	6,910,372
	112,276,045	94,898,379	1,073,977	16,303,689
Due to related parties	1,164,211	217,206	-	947,005
Lease liabilities	2,662,317	2,662,317	-	-
	116,102,573	97,777,902	1,073,977	17,250,694
Net Financial Assets	₱2,715,456,228	₱2,675,535,880	₱19,397,037	₱20,523,311

*Excluding Statutory Payables

2020				
	Total	Current	1 to 30 Days	Over 30 Days
Financial Assets				
At amortized cost:				
Cash and cash equivalents	₱3,430,227,581	₱3,430,227,581	₱-	₱-
Trade and other receivables	76,123,926	28,844,091	16,000,993	31,278,842
	3,506,351,507	3,459,071,672	16,000,993	31,278,842
At FVOCI:				
Investment in proprietary club shares	7,400,000	-	-	7,400,000
	3,513,751,507	3,459,071,672	16,000,993	38,678,842
Financial Liabilities				
Other financial liabilities:				
Trade and other payables*				
Trade	35,201,717	31,645,217	1,536,121	2,020,379
Non-trade	6,644,240	1,635,982	-	5,008,258
Accrued expenses	9,005,512	2,087,527	186,627	6,731,358
	50,851,469	35,368,726	1,722,748	13,759,995
Due to related parties	2,426,387	28,558	-	2,397,829
Lease liabilities	4,539,815	-	-	4,539,815
	57,817,671	35,397,284	1,722,748	20,697,639
Net Financial Assets	₱3,455,933,836	₱3,423,674,388	₱14,278,245	₱17,981,203

*Excluding Statutory Payables



Credit Risk

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

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

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

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

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

2021			
	Maximum exposure	Offset	Exposure to credit risk
At Amortized Cost			
Cash and cash equivalents (excluding cash on hand)	₱2,624,225,882	(₱3,500,000)	₱2,620,725,882
Trade and other receivables	199,048,237	—	199,048,237
	₱2,823,274,119	(₱3,500,000)	₱2,819,774,119
2020			
	Maximum exposure	Offset	Exposure to credit risk
At Amortized Cost			
Cash and cash equivalents (excluding cash on hand)	₱3,429,942,075	(₱3,500,000)	₱3,426,442,075
Trade and other receivables	76,123,926	—	76,123,926
	₱3,506,066,001	(₱3,500,000)	₱3,502,566,001

As of December 31, 2021 and 2020, the Parent Company's significant concentration of credit risk pertains to its trade and other receivables amounting to ₱199.0 million and ₱76.1 million, respectively, and impaired financial assets, determined based on probability of collection, have been adequately covered with allowance.

The following are the details of the Parent Company's assessment of credit quality and the related ECLs as at December 31, 2021 and 2020:



General Approach

- *Cash and cash equivalents* - As of December 31, 2021 and 2020, the ECL relating to the cash and cash equivalents of the Parent Company is minimal as these are deposited in reputable banks which have good bank standing, and is considered to have low credit risk.
- *Due from related parties* - As of December 31, 2021 and 2020, there were no individually impaired accounts. No ECL is recognized for these receivables since there were no history of default payments. This assessment is undertaken each financial year through examining the financial position of the parties and the markets in which the parties operate.

Simplified Approach

- *Trade and Other Receivables* - The Parent Company applied the simplified approach under PFRS 9, using a 'provision matrix'. As of December 31, 2021 and 2020, the allowance for impairment losses as a result from performing collective and specific impairment test amounted to ₱6.9 million and ₱3.7 million, respectively. Management evaluated that the Parent Company's trade receivables are of high grade and of good credit quality.

2021					
	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Lifetime ECL Simplified Approach	Total
Gross carrying amount	₱-	₱-	₱6,892,930	₱199,048,237	₱205,941,167
Loss allowance	-	-	(6,892,930)	-	(6,892,930)
Carrying amount	₱-	₱-	₱-	₱199,048,237	₱199,048,237

2020					
	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Lifetime ECL Simplified Approach	Total
Gross carrying amount	₱-	₱-	₱3,991,469	₱75,846,495	₱79,837,964
Loss allowance	-	-	(3,991,469)	277,431	(3,714,038)
Carrying amount	₱-	₱-	₱-	₱76,123,926	₱76,123,926

The Parent Company grades its financial assets as follows:

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



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 and Trade and Other Payables.* The carrying amounts of cash and cash equivalents, trade and other receivables and trade and other payables 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 traded proprietary club shares.

As of December 31, 2021 and 2020, the Parent Company considers its investment in proprietary club shares with fair values of ₱8.0 million and ₱7.4 million under Level 1 classification, respectively (see Notes 3 and 13).

During the reporting period ended December 31, 2021, 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.

23. Lease Agreements

The Parent Company has entered into various leases for rooms, office spaces, parking lots, sub transmission line steel post space, and parcel of land which include those with respect to its LLA with PSALM (see Note 25). Lease of parcel of land generally has a lease term of 25 years. Lease terms for the other leased assets generally vary between five months to three years. Total rent expense charged to operations amounted to ₱4.6 million, ₱4.0 million and ₱1.6 million in 2021, 2020 and 2019, respectively (see Notes 16 and 17).

Set out below are the carrying amounts of the Company's lease liabilities and the movements during the years ended December 31, 2021 and 2020:

	2021	2020
As at January 1	₱4,427,756	₱8,502,282
Interest accretion	112,059	370,931
Payments of:		
Interest	(112,059)	(370,931)
Principal portion	(1,765,439)	(4,074,526)
	₱2,662,317	₱4,427,756



Set out below are the amounts recognized in the parent company statements of comprehensive income for the years ended December 31, 2021 and 2020:

	2021	2020
Depreciation expense of right-of-use assets	₱3,087,673	₱3,729,722
Interest expense on lease liabilities	112,059	370,931
Rent expense - short-term leases (see Notes 16 and 17)	4,586,277	3,991,397
	₱7,786,009	₱8,092,050

24. Notes to the Parent Company Statements of Cash Flows

Changes in liabilities arising from financing activities in 2021, 2020 and 2019 are as follows:

	January 1, 2021	Dividend Declaration	Amortization of Transaction Costs	Additions	Cash Flows	December 31, 2021
Dividends payable (see Note 15)	₱-	₱2,319,655,295	₱-	₱-	(₱2,319,655,295)	₱-
Lease liabilities (see Note 23)	4,427,756	-	-	-	(1,765,439)	2,662,317
	₱4,427,756	₱2,319,655,295	₱-	₱-	(₱2,321,420,734)	₱2,662,317

	January 1, 2020	Dividend Declaration	Amortization of Transaction Costs	Additions	Cash Flows	December 31, 2020
Dividends payable (see Note 15)	₱-	₱1,197,241,442	₱-	₱-	(₱1,197,241,442)	₱-
Lease liabilities (see Note 23)	8,502,282	-	-	-	(4,074,526)	4,427,756
	₱8,502,282	₱1,197,241,442	₱-	₱-	(₱1,201,315,968)	₱4,427,756

	January 1, 2019	Dividend Declaration	Amortization of Transaction Costs	Additions	Cash Flows	December 31, 2019
Dividends payable (see Note 15)	₱-	₱1,646,206,983	₱-	₱-	(₱1,646,206,983)	₱-
Lease liabilities (see Note 23)	1,263,879	-	-	9,263,018	(2,024,615)	8,502,282
	₱1,263,879	₱1,646,206,983	₱-	₱9,263,018	(₱1,648,231,598)	₱8,502,282

25. 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.

The Parent Company participated in the WESM starting in the last quarter of 2014.

Ancillary Services Procurement Agreement (ASPA)

On May 26, 2015, the Parent Company entered into an ASPA with 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 pre-terminated on July 13, 2018 due to the return of the Cebu Diesel Power Plant to PSALM.

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 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.

Land Lease Agreements (LLA)

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

- *LBGTs.* On January 29, 2010, the Parent Company executed the LLA with a term of 10 years up to January 28, 2020 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 March 25, 2009 (the "Closing Date") amounted to ₱1.2 million.
- *153.1 MW Naga Power Plant (consisting of CTPP 1, CTPP 2 and CDP 1).* 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 LLA, the Parent Company 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 its right under the LLA or sublease all or any part of the leased premises without the prior consent of PSALM.



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.

The Parent Company, at its 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 by or for the benefit of the Parent Company.

Pursuant to the provisions of the LLA, within a period of 180 days from the termination of the LLA or expiration of the lease term, the Parent Company is obliged to perform activities to facilitate clean-up, return and surrender of the leased premises.

Acquisition and Turnover of the 153.1 MW 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 28, 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 28, 2015.

On February 21, 2017, the Parent Company received the Entry of Judgment through its legal counsel certifying that the September 28, 2015 Decision and October 5, 2016 Resolution have become final and executory on November 28, 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 28, 2015 Decision and the October 5, 2016 Resolution became final on November 28, 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 28, 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 28, 2016 are recognized as part of "Others - net" in the parent company statements of comprehensive income.

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.

26. Subsequent Events

Purchase of Power Barge 102 and 103

On September 15, 2021, SIPC entered into an APA with AC Energy Corporation (ACEN) (Seller) for the purchase of PB 102 and 103 to obtain new and used engine spare parts and replacement equipment for the group's existing operating plant and power barge. PB 102 and 103, are both 4x8MW oil-fired diesel barges located in Barangay Obrero, Iloilo City and Barangay Poblacion, Lapu-Lapu City, respectively, and are not in commercial operation. Completion of the transaction is subject to the satisfaction of the agreed conditions precedent, including applicable regulatory approvals. Under the APA, SIPC has the right to assign its rights to purchase PB 102 and 103 to the Parent Company. In a Board Resolution dated September 15, 2021, SIPC assigned its rights under the APA to the Parent Company, with such assignment accepted by the Parent Company on a Board Resolution dated the same day.



On February 22, 2022, the Deed of Absolute Sale for the purchase of PB102 was executed between the Parent Company and ACEN for a consideration amounting to ₱39.2 million, inclusive of VAT.

As of report release date, PB102 is undergoing stripping and removal of usable spare parts and equipment for preservation and future use of the existing operating plant and power barge. The purchase of PB103 on the other hand is yet to be completed and finalized by both parties pending repairs from minor damage sustained during typhoon Odette in December 2021.

Acquisition of 40.5% Interest in STEAG State Power, Inc. (SPI)

On September 20, 2021, the Parent Company was invited by STEAG GmbH (Seller) to participate in the submission of Firm Offer for the acquisition of its 51% interest in STEAG State Power, Inc. (SPI).

SPI owns and operates Mindanao's first coal-fired power plant located at the PHIVIDEC Industrial Estate in Villanueva, Misamis Oriental. The plant was built through a Build-Operate-Transfer scheme with the NPC as the other party to the Power Purchase Agreement with a period of twenty-five (25) years.

On December 10, 2021, the Parent Company and its affiliate Intrepid Holdings, Inc. (IHI), together as Purchasers, were selected as the Preferred Prospective Purchasers with the view to negotiate the Sale and Purchase Agreement (SPA) expeditiously. Negotiations on the SPA commenced on December 13, 2021.

After series of negotiations, the SPA was executed among the parties on February 10, 2022. Subject to the terms and conditions of the SPA, the Seller shall sell its 51% interest in the outstanding capital stock of SPI to the Purchasers, with the Parent Company acquiring 40.5% interest and IHI acquiring 10.5% interest. The Consideration for the transfer of ownership rights over the shares shall be the sum of: (i) the consideration for both the common and redeemable shares of US\$52.0 million (allocated between the Parent Company and IHI at US\$41.3 million and US\$10.7 million, respectively) and (ii) interest accrued at the Locked Box Interest Rate as provided for in the SPA.

The Completion of the sale is subject to certain closing conditions and the final purchase price shall be confirmed after closing. Completion shall be on the tenth (10th) business day after the date on which the conditions are satisfied or waived or at such other date that the parties agree in writing, but no later than June 1, 2022, unless the parties agree to extend such date if Completion does not occur by such date.

The transaction is in line with the objective of the Parent Company to support growth and address the country's need for reliable, affordable and sustainable power supply.



27. Supplementary Information Required Under Revenue Regulation (RR) 2015-2010

In compliance with the requirements set forth by RR 15-2010, hereunder are the information on taxes, duties and license fees paid or accrued during the taxable year:

VAT

The National Internal Revenue Code of 1997 also provides for the imposition of VAT on sales of goods and services. Accordingly, the Parent Company's sales are subject to output VAT while its importations and purchases from other VAT-registered individuals or corporations are subject to input VAT. The VAT rate is 12.0%.

- Net Sales/Receipts and Output VAT declared in the Parent Company's VAT returns filed for the period:

	Net Sales/ Receipts	Output VAT
Vatable sales:		
Sale of services	₱448,321,285	₱53,798,554
Sale of goods	71,428	8,571
	448,392,713	53,807,125
Zero-rated sales/Sales to Government	4,150,066	49,572
	₱452,542,779	₱53,856,697

- Input VAT

At January 1	₱5,123,537
Current year's domestic purchases/payments or importations for:	
Goods other than for resale or manufacture	36,951,301
Services lodged under general and administrative expenses and other accounts	5,304,168
Capital goods subject to amortization	1,187,165
	48,566,171
Claims for tax credit/refund and other adjustments	(43,853,599)
At December 31	₱4,712,572

Details of the Parent Company's importations are shown below:

Dutiable value	₱7,568,350
Customs duties	137,000
Brokerage charges	68,804
Total landed cost	₱7,774,154

Excise Taxes

The Parent Company did not have local nor imported excisable items.



Other Taxes and Licenses

All other local taxes, local and national, including real estate taxes, license and permit fees were lodged under the Taxes and Licenses account under "Cost of Services" and "General and administrative expenses" in the 2021 parent company statement of comprehensive income:

Details consist of the following:

Local:	
Business tax	₱1,280,941
License and permits fees	580,632
National:	
Documentary stamp taxes	260
Others	3,150,721
	<u>₱5,012,554</u>

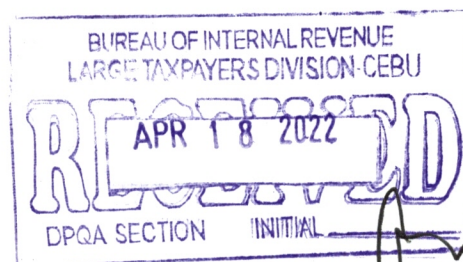
Withholding Taxes

Details of withholding taxes in 2021 follow:

Final withholding taxes	₱16,189,517
Withholding taxes on compensation and benefits	8,905,130
Expanded withholding taxes	6,047,138
	<u>₱31,141,785</u>

Tax Assessments and Cases

The Parent Company does not have pending tax cases outside the administration of the BIR as of December 31, 2021.



COVER SHEET

for
AUDITED FINANCIAL STATEMENTS

SEC Registration Number

A S 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 A N D S U B S
I D I A R I E S

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 C 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

808

Annual Meeting (Month / Day)

05/31

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) 3231469

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.



SPC POWER CORPORATION AND SUBSIDIARIES
CONSOLIDATED FINANCIAL STATEMENTS
AND SUPPLEMENTARY SCHEDULES
SEC FORM 17-A

	<u>Page</u>
CONSOLIDATED FINANCIAL STATEMENTS	
Statement of Management's Responsibility for Financial Statements	2
Independent Auditor's Report	3–7
Consolidated Statements of Financial Position as at December 31, 2021 and 2020	8–9
Consolidated Statements of Comprehensive Income for the years ended December 31, 2021, 2020 and 2019	10
Consolidated Statements of Changes in Equity for the years ended December 31, 2021, 2020 and 2019	11
Consolidated Statements of Cash Flows for the years ended December 31, 2021, 2020 and 2019	12–13
Notes to Consolidated Financial Statements	1–70
INDEX TO THE SUPPLEMENTARY SCHEDULES	
Independent Auditor's Report on Supplementary Schedules:	1
A. Financial Assets	2
B. Amounts Receivable from Directors, Officers, Employees, Related Parties, and Principal Stockholders (Other than Related parties)	3
C. Amounts Receivable from Related Parties which are Eliminated during the Consolidation of Financial Statements	4
D. Long-Term Debt	5
E. Indebtedness to Related Parties	6
F. Guarantees of Securities of Other Issuers	7
G. Capital Stock	8
Schedule of Retained Earnings Available for Dividend Declaration	9
Map of the Relationships of the Companies within the Group	10
Independent Auditor's Report on Schedule of Financial Soundness Indicators	11





SPC Power Corporation

STATEMENT OF MANAGEMENT'S RESPONSIBILITY FOR CONSOLIDATED FINANCIAL STATEMENTS

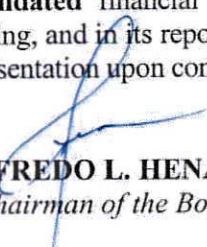
The management of **SPC Power Corporation and Subsidiaries** (the Group) is responsible for the preparation and fair presentation of the **consolidated** financial statements including the schedules attached therein, for the years ended December 31, 2021 and 2020, in accordance with the prescribed financial 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 **consolidated** financial statements, management is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.


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

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

SyCip Gorres Velayo & Co., the independent auditor appointed by the stockholders, has audited the **consolidated** financial statements of the Group in accordance with Philippine Standards on Auditing, and in its report to the stockholders or members, 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 and President


JAIME M. BALISACAN
Treasurer/Senior Vice President – Finance and Administration

Signed this 6th day of April, 2022.

13 APR 2022

SUBSCRIBED AND SWORN TO before me this _____ day of April 2022 at Makati City; Affiants exhibited to me their CTC/Passport Nos. as follows:

<u>Names</u>	<u>CTC/Passport No.</u>	<u>Date of Issue</u>	<u>Place of Issue</u>
Alfredo L. Henares	P5099307B	March 11, 2020	DFA NCR East
Dennis T. Villareal	P8767960A	September 17, 2018	DFA Manila
Jaime M. Balisacan	4778276	January 25, 2022	Cebu City

Doc. No. 64
Page No. 14
Book No. 27
Series of 2022.


JOSHUA P. LAPUZ
Notary Public for Makati City
Appointment No. M-19 / Until 12-31-23
Roll No. 45790 / IBP Life No. 04897 / 07-03-03
PTR-O.R. No. 8852510 / 01-03-22 / Makati City
MCLE No. VI-0016565 / 01-14-19
G/F Fedman Suites, 199 Salcedo St.
Legaspi Village, 1229 Makati City

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

Opinion

We have audited the consolidated financial statements of SPC Power Corporation and its subsidiaries (the Group), which comprise the consolidated statements of financial position as at December 31, 2021 and 2020, and the consolidated statements of comprehensive income, consolidated statements of changes in equity and consolidated statements of cash flows for each of the three years in the period ended December 31, 2021, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at December 31, 2021 and 2020, and its consolidated financial performance and its consolidated cash flows for each of the three years in the period ended December 31, 2021 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 Consolidated Financial Statements* section of our report. We are independent of the Group in accordance with the Code of Professional Ethics for Professional Accountants in the Philippines (Code of Ethics) together with the ethical requirements that are relevant to our audit of the consolidated 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.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

