

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

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

Associates

- Rendering of management and other services by the Parent Company to MECO, an associate, amounting to ₱40.0 million, ₱120.0 million and ₱123.6 million in 2021, 2020 and 2019, respectively, are recorded as "Service income" presented as part of "Other income (charges)" in the consolidated statements of comprehensive income.
- Management, operation and maintenance services rendered by SIPC on ODPP arising from the assignment of rights and obligations by the Parent Company to SIPC under the "Operations, Maintenance and Management Services Agreement" with MECO until 2026 or until a new operator that won in the bidding conducted by MECO in 2017 is qualified by the ERC, whichever is earlier. Revenue recorded under "Revenue" amounted to ₱5.2 million, ₱16.1 million and ₱32.7 million in 2021, 2020 and 2019, respectively. Outstanding receivables from MECO on these transactions amounted to nil and ₱1.1 million as of December 31, 2021 and 2020, respectively, and are included as part of "Trade and other receivables" in the consolidated statements of financial position (see Note 7).
- Purchase of power by BLCI from KEPCO SPC Power Corporation (KEPCO SPC), an associate, under the Power Sales Contract between BLCI and KEPCO SPC amounting to ₱343.7 million, ₱331.8 million and ₱349.8 million in 2021, 2020 and 2019, respectively (see Note 24). Outstanding amount due to KEPCO SPC on this transaction amounted to ₱48.4 million and ₱49.4 million as of December 31, 2021 and 2020, respectively, and are included as part of "Trade and other payables" in the consolidated statements of financial position (see Note 14).
- Extension of short-term, noninterest-bearing advances by the Parent Company to KEPCO SPC for the development of the 2x100 MW CFBC coal-fired Power Plant in Naga, Cebu. Outstanding amount due from KEPCO SPC amounted to ₱0.8 million as of December 31, 2021 and 2020 and are included in due from related parties presented under "Trade and other receivables" in the consolidated statements of financial position (see Note 7).
- Dividends received from KEPCO SPC amounting to ₱1,026.8 million, ₱1,357.0 million and ₱1,328.0 million in 2021, 2020 and 2019, respectively; and from MECO amounting to ₱120.0 million, ₱24.0 million and ₱84.0 million in 2021, 2020 and 2019, respectively (see Note 10).



Affiliates Under Common Ownership

- Sale of electricity to Bohol Water Utilities, Inc. (BWUI) at the same rates charged to BLCI's consumers amounted to ₱19.6 million, ₱19.1 million and ₱25.3 million in 2021, 2020 and 2019, respectively. Outstanding receivable from BWUI related to this transaction amounting to ₱6.7 million and ₱2.5 million as of December 31, 2021 and 2020, respectively, are included as part of "Trade and other receivables" in the consolidated statements of financial position (see Note 7).
- Rentals on office spaces from SPEC Properties, Inc. (SPEC), SII Properties Development Corporation (SPDC) and BWUI with lease terms ranging from 2–3 years amounted to ₱4.4 million in 2021 and 2020 and ₱4.6 million in 2019. Upon adoption of PFRS 16 effective January 1, 2019, lease liabilities were recognized on the unpaid rentals until the end of lease term for these office spaces.
- Collection charges from BWUI and advances to related parties amounting to ₱0.1 million and ₱0.2 million as of December 31, 2021 and 2020, respectively, are recorded under "Trade and other receivables" in the consolidated statements of financial position (see Note 7). Advances from related parties amounting to ₱26,522 and ₱0.2 million as of December 31, 2021 and 2020 are presented as "Trade and other payables" in the consolidated statements of financial position (see Note 14).

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

2021				
Category	Transaction	Outstanding Balance - Receivable (Payable)	Terms	Conditions
Associates				
Sales:				
MECO	₱5,216,459	₱-	30-day; Noninterest-bearing	Unsecured; No impairment
Technical services rendered to:				
MECO	40,002,385	-	60-day; Noninterest-bearing	Unsecured
Purchase of power from:				
KEPCO SPC	343,669,158	(48,371,310)	Interest-bearing; 91-day T-bill plus 3% per annum	Unsecured
Advances to:				
KEPCO SPC	-	763,112	Due and demandable	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	119,999,866	79,999,911	Due and demandable	Unsecured; No impairment
Affiliates (Companies Under Common Ownership)				
Sales:				
BWUI	19,566,742	6,668,944	10 days from receipt of billing	Unsecured, No impairment
Lease of office space from:				
SPEC	3,651,136	(2,738,352)	30-day; Noninterest-bearing; 3% annual escalation	Unsecured

(Forward)



2021				
Category	Transaction	Outstanding Balance - Receivable (Payable)	Terms	Conditions
Lease of office space from: SPDC	₱765,946	(₱572,066)	30-day; Noninterest-bearing; 3% annual escalation	Unsecured
Collection charges: BWUI	138,573	26,522	₱1.53 per receipt	Unsecured; No impairment
Advances to (from): BWUI	146,762	236,819	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
SPEC	70,197	202,945	60-day; Noninterest-bearing	Unsecured; No impairment
SII	51,184	139,736	60-day; Noninterest-bearing	Unsecured; No impairment
SPI	45,500	127,475	60-day; Noninterest-bearing	Unsecured; No impairment
SWRI	30,041	223,586	60-day; Noninterest-bearing	Unsecured; No impairment
WPHC	29,041	126,578	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 (see Note 7)	4,964,831	6,796,875	60-day; Noninterest-bearing	Unsecured; No impairment
2020				
Category	Transaction	Outstanding Balance - Receivable (Payable)	Terms	Conditions
Associates				
Sales: MECO	₱16,081,350	₱1,123,161	30-day; Noninterest-bearing	Unsecured; No impairment
Technical services rendered to: MECO	120,007,156	-	60-day; Noninterest-bearing	Unsecured
Purchase of power from: KEPCO SPC	331,846,831	(49,403,123)	Interest-bearing; 91-day T-bill plus 3% per annum	Unsecured
Advances to: KEPCO SPC	-	719,579	Due and demandable	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)				
Sales: BWUI	19,138,234	2,483,007	10 days from receipt of billing	Unsecured; No impairment

(Forward)



2020				
Category	Transaction	Outstanding Balance - Receivable (Payable)	Terms	Conditions
Lease of office space from:				
SPEC	₱3,651,136	(₱912,784)	30-day; Noninterest-bearing; 3% annual escalation	Unsecured
SPDC	691,317	(172,829)	30-day; Noninterest-bearing; 3% annual escalation	Unsecured
BWUI	303,704	-	10% escalation every two years	Unsecured
Collection charges:				
BWUI	185,303	19,872	₱1.53 per receipt	Unsecured; No impairment
Advances to (from):				
BWUI	170,660	256,053	60-day; Noninterest-bearing	Unsecured; No impairment
SPDC	215,160	(215,160)	60-day; Noninterest-bearing	Unsecured
SPDC	70,659	322,638	60-day; Noninterest-bearing	Unsecured; No impairment
SPEC	65,895	132,749	60-day; Noninterest-bearing	Unsecured; No impairment
SII	37,400	88,555	60-day; Noninterest-bearing	Unsecured; No impairment
SPI	37,025	81,975	60-day; Noninterest-bearing	Unsecured; No impairment
SWRI	-	193,545	60-day; Noninterest-bearing	Unsecured; No impairment
WPHC	-	97,537	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
Pure and Pam, Inc.	-	75,000	60-day; Noninterest-bearing	Unsecured; No impairment
Officers and employees (see Note 7)	11,376,931	6,851,427	60-day; Noninterest-bearing	Unsecured; No impairment
2019				
Category	Transaction	Outstanding Balance - Receivable (Payable)	Terms	Conditions
Associates				
Sales:				
MECO	₱32,692,362	₱2,302,234	30-day; Noninterest-bearing	Unsecured; No impairment
Technical services rendered to:				
MECO	123,643,736	-	60-day; Noninterest-bearing	Unsecured
Purchase of power from:				
KEPCO SPC	349,811,181	(52,105,325)	Interest-bearing; 91-day T-bill plus 3% per annum	Unsecured
Advances to:				
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	83,999,906	-	Due and demandable	Unsecured

(Forward)



2019				
Category	Transaction	Outstanding Balance - Receivable (Payable)	Terms	Conditions
Affiliates (Companies Under Common Ownership)				
Sales:				
BWUI	25,252,653	3,814,664	10 days from receipt of billing	Unsecured; No impairment
Lease of office space from:				
SPEC	3,651,136	(1,217,045)	30-day; Noninterest-bearing; 3% annual escalation	Unsecured
SPDC	P691,317	(P230,439)	30-day; Noninterest-bearing; 3% annual escalation	Unsecured
BWUI	303,704	-	10% escalation every two years	Unsecured
Collection charges:				
BWUI	224,828	35,534	P1.53 per receipt	Unsecured; No impairment
Advances to (from):				
BWUI	3,524,635	133,542	60-day; Noninterest-bearing	Unsecured; No impairment
SPDC	261,723	(108,037)	60-day; Noninterest-bearing	Unsecured
SPDC	87,655	251,980	60-day; Noninterest-bearing	Unsecured; No impairment
SPEC	66,854	66,854	60-day; Noninterest-bearing	Unsecured; No impairment
SH	51,152	51,152	60-day; Noninterest-bearing	Unsecured; No impairment
SPI	44,950	44,950	60-day; Noninterest-bearing	Unsecured; No impairment
SWRI	17,518	193,545	60-day; Noninterest-bearing	Unsecured; No impairment
WPHC	16,671	97,537	60-day; Noninterest-bearing	Unsecured; No impairment
KV Holdings, Inc.	3,932	3,932	60-day; Noninterest-bearing	Unsecured; No impairment
KEPCO Philippines Holdings, Inc.	-	(497,043)	60-day; Noninterest-bearing	Unsecured
Pure and Pam, Inc.	-	75,000	60-day; Noninterest-bearing	Unsecured; No impairment
Officers and employees (see Note 7)	9,827,608	4,679,337	60-day; Noninterest-bearing	Unsecured; No impairment

These transactions with related parties are generally settled in cash.

Compensation and Benefits of Key Management Personnel

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

	2021	2020	2019
Short-term benefits	P43,171,364	P39,833,263	P35,467,713
Post-employment benefits	636,490	457,668	428,663
	P43,807,854	P40,290,931	P35,896,376



6. Cash and Cash Equivalents

	2021	2020
Cash on hand and in banks	₱826,026,031	₱1,143,479,375
Short-term investments	2,158,084,604	2,800,827,511
	₱2,984,110,635	₱3,944,306,886

Cash in banks earn interest at the respective bank deposit rates. Short-term investments are made for varying periods of up to three months or less, depending on the immediate cash requirements of the Group, and earn interest at the prevailing short-term investment rates. Total interest income amounted to ₱34.6 million, ₱51.6 million and ₱102.5 million in 2021, 2020 and 2019, respectively.

7. Trade and Other Receivables

	2021	2020
Receivable from customers (net of allowance for impairment losses of ₱48.3 million and ₱39.8 million as of 2021 and 2020, respectively) (see Note 5)	₱307,274,236	₱255,677,034
Dividend receivable	79,999,911	—
Current portion of PSALM deferred adjustments (see Note 29)	36,798,477	36,798,477
Advances to officers and employees	6,796,877	6,851,427
Due from related parties	2,190,509	2,005,050
Receivable from PSALM	1,015,262	1,015,262
Others	55,752,349	35,708,250
	₱489,827,621	₱338,055,500

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

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

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

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

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

	2021	2020
At January 1	₱39,789,858	₱37,162,187
Provision for impairment losses (see Note 20)	8,493,443	2,905,102
Reversal of allowance	—	(277,431)
At December 31	₱48,283,301	₱39,789,858



8. Materials and Supplies

	2021	2020
On hand	₱389,276,021	₱358,162,531
In transit	543,347	5,465,296
	₱389,819,368	₱363,627,827

Materials and supplies include fuel, lubricants, chemicals, spare parts, supplies and other consumables used in the operations, repairs and maintenance of the power generation and utility plants, property and equipment.

Materials and supplies charged to "Cost of operations" amounted to ₱799.7 million, ₱349.3 million and ₱741.5 million in 2021, 2020 and 2019, respectively, in the consolidated statements of comprehensive income (see Note 19).

9. Prepayments and Other Current Assets

	2021	2020
Input VAT	₱34,251,587	₱28,785,227
Prepaid income tax	18,004,868	2,927,478
Prepaid real property tax	7,452,788	7,428,401
Prepaid insurance	6,909,339	6,372,158
Refundable deposits	5,856,301	5,815,581
Prepaid rent	730,655	536,579
Deferred input VAT	739,897	847,865
Others	2,361,907	2,237,161
	₱76,307,342	₱54,950,450

10. Investments in Associates

	2021	2020
Acquisition cost	₱2,852,565,368	₱2,852,565,368
Accumulated equity in net earnings and other comprehensive income:		
At January 1	2,930,301,270	3,096,765,103
Equity in net earnings	867,849,896	1,213,454,901
Share in remeasurement of employee benefits of associates, net of tax of ₱0.1 million in 2021 and ₱1.0 million in 2020	1,326,876	1,098,177
Dividend income	(1,146,799,813)	(1,381,016,911)
At December 31	2,652,678,229	2,930,301,270
	₱ 5,505,243,597	₱5,782,866,638



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

	Principal Activity	% of Ownership	Acquisition Cost
KEPCO SPC	Power generation	40.0	₱2,472,464,616
MECO	Power distribution	40.0	380,000,752
SWRI	Water processing	40.0	100,000
			₱2,852,565,368

KEPCO SPC

KEPCO SPC was registered with the SEC on June 22, 2005 primarily to build, operate, maintain, own and manage the 2x100 MW CFBC Boiler Coal-Fired Power Plant in Naga, Cebu, Philippines.

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

	2021	2020	2019
Current assets	₱3,295,642,541	₱3,330,256,923	₱3,353,388,423
Noncurrent assets	8,767,282,343	9,436,490,867	10,185,758,230
Current liabilities	849,143,657	770,666,454	832,206,435
Noncurrent liabilities	170,367,207	170,395,823	184,236,487
Equity	11,043,414,020	11,825,685,513	12,522,703,731
Revenue	7,401,904,359	7,757,801,584	8,342,240,486
Gross profit	2,789,999,501	4,000,394,743	3,261,222,071
Net income	1,781,078,822	2,782,970,368	2,851,004,285
Other comprehensive income (loss)	3,649,551	(3,208,956)	(7,298,321)
Total comprehensive income	1,784,728,373	2,779,761,412	2,843,705,964
Group's share in net income	712,431,529	1,113,188,147	1,140,401,714
Carrying amount of the investment	4,417,365,608	4,730,274,205	5,009,844,373
Dividends received from KEPCO SPC	1,026,799,946	1,357,016,938	1,328,024,392

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).

As of December 31, 2021, 2020 and 2019, the Group's share in the net assets of KEPCO SPC approximates the carrying value of its investment amounting to ₱4,417.4 million, ₱4,730.3 million and ₱5,009.8 million, respectively.

MECO

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



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

	2021	2020	2019
Current assets	₱3,003,015,589	₱2,662,925,520	₱2,538,137,993
Noncurrent assets	3,643,168,379	3,750,638,131	3,793,357,353
Current liabilities	1,107,062,700	893,738,932	993,387,990
Noncurrent liabilities	2,392,848,077	2,435,659,445	2,522,682,101
Equity	3,146,273,191	3,084,165,274	2,815,425,255
Revaluation increment on property, plant and equipment, and others (adjusted at consolidated level following the Group's policy of cost model)	426,828,555	452,934,191	467,786,406
Revenue	5,738,323,076	5,251,432,323	6,651,213,663
Gross profit	375,379,894	343,303,728	442,284,044
Net income	310,601,812	316,420,385	441,331,201
Other comprehensive income (loss)	32,020,078	5,954,400	(332,628)
Net income after adjustment of depreciation on appraisal increase and others	340,635,858	337,637,835	467,669,998
Group's share in net income after adjustment of depreciation on appraisal increase and others	155,418,367	135,055,134	187,067,999
Carrying amount of the investment	1,087,777,988	1,052,492,433	939,386,098
Dividends received from MECO	119,999,867	23,999,973	83,999,906

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).

As of December 31, 2021, 2020 and 2019, the Group's share in the net assets of MECO approximates the carrying value of its investment amounting to ₱1,087.8 million, ₱1,052.5 million and ₱939.4 million, respectively.

SWRI

SWRI is incorporated to engage in the business of providing water services for the operation, maintenance, refurbishment and expansion of power production and electrical generating facilities, including supply of water for the operation of said facilities.



11. Property, Plant and Equipment

2021										
	Distribution Lines, Poles and Fixtures	Power Transformers, Switches and Devices	Plant Machinery and Equipment	Motor Vehicles	Structures	Furniture and Office Equipment	Land	Construction in Progress	Right-of-use Assets (see Note 30)	Total
Cost										
At January 1	P227,439,015	P204,662,206	P1,035,269,259	P43,507,265	P65,778,740	P30,557,018	P73,905,897	P2,757,018	P16,420,635	P1,700,297,053
Additions	11,921,557	8,892,099	26,388,056	1,325,223	706,719	1,503,531	13,566,446	6,473,449	-	70,777,080
Transfers	-	-	-	-	-	-	-	-	-	-
Retirements	(5,859,736)	-	-	(1,900,057)	-	(60,198)	-	-	(10,769,341)	(18,589,332)
At December 31	233,500,836	213,554,305	1,061,657,315	42,932,431	66,485,459	32,000,351	87,472,343	9,230,467	5,651,294	1,752,484,801
Accumulated Depreciation and Impairment										
At January 1	138,087,588	124,916,669	581,014,921	26,373,878	47,228,920	25,695,428	-	-	7,296,266	950,613,670
Depreciation (see Note 22)	10,190,448	10,518,839	51,926,064	5,143,859	2,591,721	2,084,857	-	-	3,432,945	85,888,733
Retirements	(4,141,895)	-	-	(1,900,054)	-	(48,160)	-	-	(9,693,395)	(15,783,504)
At December 31	144,136,141	135,435,508	632,940,985	29,617,683	49,820,641	27,732,125	-	-	1,035,816	1,020,718,899
Net Book Value	P89,364,695	P78,118,797	P428,716,330	P13,314,748	P16,664,818	P4,268,226	P87,472,343	P9,230,467	P4,615,478	P731,765,902
2020										
	Distribution Lines, Poles and Fixtures	Power Transformers, Switches and Devices	Plant Machinery and Equipment	Motor Vehicles	Structures	Furniture and Office Equipment	Land	Construction in Progress	Right-of-use Assets (see Note 30)	Total
Cost										
At January 1	P216,067,377	P159,577,406	P1,028,486,960	P33,134,107	P64,373,235	P29,314,921	P66,095,774	P42,770,961	P17,815,915	P1,657,636,656
Additions	13,456,230	6,894,465	6,139,217	11,123,937	1,093,264	2,627,921	7,810,123	318,814	-	49,463,971
Transfers	-	39,377,434	643,082	-	312,241	-	-	(40,332,757)	-	-
Retirements	(2,084,592)	(1,187,099)	-	(750,779)	-	(1,385,824)	-	-	(1,395,280)	(6,803,574)
At December 31	227,439,015	204,662,206	1,035,269,259	43,507,265	65,778,740	30,557,018	73,905,897	2,757,018	16,420,635	1,700,297,053
Accumulated Depreciation and Impairment										
At January 1	129,917,530	117,564,272	519,706,733	22,990,752	44,226,000	25,077,488	-	-	4,401,365	863,884,140
Depreciation (see Note 22)	10,197,342	8,243,886	61,308,188	4,133,905	3,002,920	1,952,490	-	-	4,290,181	93,128,912
Retirements	(2,027,284)	(891,489)	-	(750,779)	-	(1,334,550)	-	-	(1,395,280)	(6,399,382)
At December 31	138,087,588	124,916,669	581,014,921	26,373,878	47,228,920	25,695,428	-	-	7,296,266	950,613,670
Net Book Value	P89,351,427	P79,745,537	P454,254,338	P17,133,387	P18,549,820	P4,861,590	P73,905,897	P2,757,018	P9,124,369	P749,683,383



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

The Group recognized casualty losses on its distribution lines, poles and fixtures amounting to ₱2.1 million as a result of typhoon Odette (see Note 20).

12. Other Noncurrent Assets and Intangible Assets

Other noncurrent assets

	2021	2020
PSALM deferred adjustments (see Notes 7 and 29)	₱72,370,338	₱109,168,815
Investment in proprietary club shares	8,000,000	7,400,000
Advances to suppliers and contractors	3,132,816	2,737,052
Others	26,436,139	15,954,164
	₱109,939,293	₱135,260,031

Current portion of PSALM deferred adjustments amounting to ₱36.8 million is presented under "Trade and other receivables" in the consolidated statements of financial position as of December 31, 2021 and 2020 (see Note 7).

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

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

Intangible assets

	2021	2020
Software costs (net of accumulated amortization of ₱3.6 million and ₱3.0 million as of 2021 and 2020, respectively)	2,433,006	3,041,257
Franchise (net of accumulated amortization of ₱10.0 million and ₱9.5 million as of 2021 and 2020, respectively)	1,909,734	2,387,168
	₱4,342,740	₱5,428,425

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 20 and 22)	608,251	608,251
At December 31	3,649,508	3,041,257
Net Book Value	₱2,433,006	₱3,041,257



Franchise pertains to the costs incurred by BLCI to acquire the franchise to operate the Bohol Provincial Electric System which is amortized over 25 years. The following table shows the movement of franchise:

	2021	2020
Acquisition Cost	₱11,935,833	₱11,935,833
Accumulated Amortization		
At January 1	9,548,665	9,071,232
Amortization (see Notes 20 and 22)	477,433	477,433
At December 31	10,026,098	9,548,665
Net Book Value	₱10,026,099	₱2,387,168

13. Goodwill

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

Carrying amount of goodwill related to BLCI amounted to ₱32.5 million as of December 31, 2021 and 2020. The goodwill is attributed to the expected synergies and other benefits from combining the assets of the distribution utility with those of the Group.

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

- Interest rate used to discount the net cash flows from operations is BLCI's WACC of 14.97% as of December 31, 2021 and 2020 using the capital asset pricing model.
- Energy sold is projected at 4%–7% annual growth based on the actual average for 2021 and 2020, depending on the customer category.
- Operating expenses are projected to increase from 5%–7% depending on the nature of expenses.
- The computation of terminal value assumes no growth in projected cash flows beyond five years.

Based on the impairment testing, management believes there is no impairment on goodwill in 2021 and 2020.

Sensitivity to Changes in Assumptions

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



14. Trade and Other Payables

	2021	2020
Trade (see Note 24)	₱329,057,824	₱249,379,300
Nontrade (see Note 29)	168,704,830	151,115,124
Accrued expenses (see Note 15)	37,907,585	52,145,111
Due to related parties (see Note 7)	1,012,353	712,203
	₱536,682,592	₱453,351,738

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

Nontrade payables include accrual for deferred output VAT of ₱118.3 million and ₱100.5 million as of December 31, 2021 and 2020, respectively; current portion of PSALM deferred adjustments of ₱36.8 million as of December 31, 2021 and 2020 (see Note 29); and various accounts with nontrade suppliers and contractors. The significant increase in nontrade payables is due to the inclusion of VAT payable during 2021 amounting to ₱84.6 million.

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

15. Customers' Deposits

	2021	2020
Bill deposits	₱115,381,160	₱109,525,237
Material deposits	71,395,237	65,216,949
	₱186,776,397	₱174,742,186

Bill Deposits

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

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

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



Material Deposits

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

Interest on Bill Deposits

The implementing guidelines of the Magna Carta provide that the interest rate then on meter deposits shall be at 6% for contracts of service entered into prior to the effectivity of the then Energy Regulatory Board (ERB) Resolution No. 95-21 issued on August 3, 1995. The ERB Resolution No. 95-21 was issued adopting a 10% interest on customers' deposits. Pursuant to the Magna Carta as amended, bill deposits shall earn interest equivalent to the peso savings account interest rate of Land Bank of the Philippines or other government banks subject to the approval of the ERC. In the case of non-residential customers, the DSOAR, as amended provides that BLCI shall pay interest on bill deposits at the rate equivalent to the peso savings account interest rate of Land Bank of the Philippines or other government banks subject to the approval of the ERC. Interest expense on bill deposits amounting to ₱0.1 million in 2021, 2020 and 2019, are presented as part of "Interest expense" in the consolidated statements of comprehensive income. Outstanding interest expense accrued on bill deposits amounted to ₱2.8 million as of December 31, 2021 and 2020, and are presented as part of "Accrued expenses" under "Trade and other payables" in the consolidated statements of financial position (see Note 14).

16. Asset Retirement Obligation

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

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

The movement of the asset retirement obligation follows:

	2021	2020
At January 1	₱85,475,665	₱81,430,397
Accretion of interest	4,246,228	4,045,268
At December 31	₱89,721,893	₱85,475,665

Changes in ARO in 2019 represents additional ARO amounting to ₱15.8 million to reflect changes in the assumptions used based on the current best estimates. As of December 31, 2021 and 2020, the ARO recognized by the Group pertains only to PDPP of SIPC.

As of December 31, 2021, and 2020, estimates for SIPC's ARO are projected using inflation rates ranging from 2.60%–4.40% and 2.56%–3.00% and discounted using a risk-free rate of 5.11% and 3.44%, respectively. The Group did not recognize any change in ARO in 2021 and 2020.



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

17. Pension Liabilities

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

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

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

The components of pension expense recognized under "Cost of operations" and "General and administrative" in the consolidated statements of comprehensive income follow (see Note 21):

	2021	2020
Current service cost	₱6,855,450	₱5,534,367
Interest cost on benefit obligation	1,431,738	1,167,944
	₱8,287,188	₱6,702,311

Remeasurement effects recognized under "Other comprehensive income" in the consolidated statements of comprehensive income amounted to ₱2.5 million and ₱1.8 million in 2021 and 2020, respectively.

Net pension liabilities follow:

	2021	2020
Present value of defined benefit obligation	₱62,159,515	₱57,104,922
Fair value of plan assets	27,385,679	27,575,364
	₱34,773,837	₱29,529,558



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

	2021	2020
At January 1	₱57,104,922	₱50,452,184
Current service cost	6,855,450	5,534,367
Interest cost	2,782,931	2,345,023
Benefits paid	(3,654,677)	(1,347,981)
Remeasurement loss due to:		
Experience adjustments	431,840	121,329
Changes in financial assumptions	(1,360,951)	—
At December 31	₱62,159,515	₱57,104,922

Changes in the fair value of plan assets follow:

	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 consolidated statements of financial position for net pension liabilities follows:

	2021	2020
At January 1	₱29,529,558	₱26,430,161
Pension expense	8,278,188	6,702,311
Remeasurement loss (gain)	2,115,812	(1,846,660)
Benefits paid	(3,269,623)	(1,347,981)
Contribution to the retirement fund	(1,889,099)	(408,273)
At December 31	₱34,773,836	₱29,529,558

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 and others	156,989	1,122,075
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

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



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

	2021	2020
Discount rate	5.07–5.11%	4.90–5.03%
Future salary increase	5.00–6.00%	5.00–6.00%

The sensitivity analysis below has been determined based on reasonably possible changes of each significant assumption on the present value of the defined benefit obligation of the most recent actuarial valuation report, as of December 31, 2021 and 2020, assuming all other assumptions were held constant:

	Increase (Decrease)	Present Value Change of Defined Benefit Obligation	
		2021	2020
Discount rate	+100 basis points	(P3,557,134)	(P4,464,702)
	–100 basis points	4,179,977	2,636,008
Future salary increase rate	+100 basis points	4,399,616	3,076,824
	–100 basis points	(3,822,378)	(4,984,213)

The weighted average duration of the benefit payments ranges from 15.20–20.75 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	P26,481,733	P3,153,891
One year to less than five years	17,544,580	18,964,571
Five years to less than 10 years	23,616,478	20,071,064
10 years to less than 15 years	23,515,193	23,464,635
15 years to less than 20 years	42,504,527	26,128,155
20 years and above	109,354,523	108,945,479
	P243,017,034	P200,727,795

18. 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)
Issued and outstanding shares	1,496,551,803

On various dates in 2002 and 2012, the Parent Company registered with SEC its 1,569,491,900 common shares that were offered to the public at an issue price of P1.80 per share. Gross proceeds from this issuance of new shares amounted to P2.8 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.

Retained Earnings

Retained earnings are also restricted for dividend declaration to the extent of the accumulated equity in net earnings of associates amounting to ₱2.7 billion and ₱2.9 billion as of December 31, 2021 and 2020, respectively, until actually declared by the associates. It is further restricted for dividend declaration to the extent of the acquisition price of the treasury shares amounting to ₱131.0 million as of December 31, 2021 and 2020.

Appropriation

On November 28, 2018, the Board of Directors of the Parent Company approved the following: (i) reversal of retained earnings appropriated on November 20, 2017 amounting to ₱850.0 million for the construction of a CFBC coal-fired thermal power plant with a capacity of at least 300 MW due to the adverse Supreme Court decision that led to the return of the Naga Power Plant Complex to PSALM pursuant to a Memorandum of Agreement and Certificate of Turnover executed between the Parent Company and PSALM on July 9, 2018 and July 13, 2018, respectively (see Note 29); (ii) reversal of retained earnings appropriated on November 20, 2017 amounting to ₱500.0 million for two run-of-river hydro-electric power plant projects in Palawan due to unsuccessful conclusion of final studies/negotiations; and (iii) appropriation of ₱1.5 billion out of the unappropriated retained earnings of the Parent Company for the acquisition of a 100% ownership interest in a power generation company and for 1Bohol Power Project that will serve the long-term power requirements of three distribution utilities in Bohol within the years 2024–2033.

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

On November 25, 2019, the Board of Directors 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 ₱500.0 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 Board of Directors 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 (iii) 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.



Dividends

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

Declared By	Date of Declaration	Record Date	Amount	
			Gross (in millions)	Per Share
2021				
SPC	April 7, 2021	April 23, 2021	₱598.6	₱0.40
	May 28, 2021	June 14, 2021	897.9	0.60
	December 9, 2021	December 23, 2021	823.1	0.55
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				
SPC	May 7, 2020	May 22, 2020	₱598.6	₱0.40
	December 2, 2020	December 21, 2020	598.6	0.40
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				
SPC	April 4, 2019	April 23, 2019	598.6	0.40
	November 25, 2019	December 10, 2019	1,047.6	0.70
SIPC	November 25, 2019	December 10, 2019	350.0	14.0 (common)
BLCI	July 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

Non-controlling Interest

As of December 31, 2021 and 2020, the Group has 53.66% direct and indirect ownership interest in BLCI which is primarily engaged in the business of supply and distribution of electricity in the area presently comprised by Tagbilaran City, Bohol.

The summarized financial information of BLCI as of December 31 is provided below:

	2021	2020
Statements of financial position:		
Current assets	₱338,629,153	₱380,301,333
Noncurrent assets	307,090,467	329,255,355
Current liabilities	162,772,885	191,018,587
Noncurrent liabilities	268,259,416	292,864,687
Equity	214,687,319	225,673,414
Statements of comprehensive income:		
Revenue	973,658,521	946,537,844
Costs and expenses	976,175,652	917,031,890
Net income	11,425,389	36,559,618
Total comprehensive income	11,513,905	36,559,618
Net income attributable to non-controlling interest	5,294,526	16,941,727
Total comprehensive income attributable to non-controlling interest	5,335,543	16,941,727
Accumulated non-controlling interest	99,486,102	104,577,060



As of December 31, 2021 and 2020, total non-controlling interest amounted to ₱136.4 million and ₱139.8 million, respectively.

Capital Management

The Group manages its capital structure and makes adjustments to it in the light of changes in economic conditions. To maintain or adjust the capital structure, the Group may adjust the dividend payment to stockholders, return capital to stockholders or issue new shares. No changes were made in the objectives, policies or processes during the years ended December 31, 2021 and 2020.

The Group considers its total equity attributable to equity holders of the Parent, excluding other comprehensive income, as its core capital and is not subject to any externally imposed capital requirements. As of December 31, 2021 and 2020, the Group'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	7,754,370,912	8,883,372,533
Treasury stock	(131,008,174)	(131,008,174)
	₱9,279,665,390	₱10,408,667,011

19. Cost of Operations

	2021	2020	2019
Purchased power (see Notes 5 and 24)	₱908,258,790	₱852,689,877	₱1,071,712,398
Fuel, lubricants and chemicals (see Note 8)	758,703,944	316,777,057	686,048,510
Personnel costs (see Note 21)	119,083,444	110,603,428	103,359,488
Depreciation and amortization (see Note 22)	77,780,037	84,936,282	102,962,436
Spares, materials and supplies (see Note 8)	41,023,244	32,483,605	55,402,332
Repairs and maintenance	13,085,748	13,757,277	19,006,609
Others (see Note 24)	34,556,607	33,143,688	70,032,631
	₱1,952,491,814	₱1,444,391,214	₱2,108,524,404

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

20. General and Administrative Expenses

	2021	2020	2019
Personnel costs (see Note 21)	₱57,820,098	₱51,823,926	₱47,381,181
Business development	21,891,882	24,447,884	56,429,402
Shared expenses	16,799,664	14,962,804	13,900,005
Directors' fees	16,073,792	17,443,813	16,219,664
Professional fees	15,190,694	19,428,941	18,311,593
Insurance	14,468,428	14,713,337	14,710,033
Taxes, licenses and regulatory charges	11,634,226	10,493,090	49,641,828
Provisions (see Notes 7, 8 and 11)	9,829,183	2,905,102	853,062

(Forward)



	2021	2020	2019
Depreciation and amortization (see Note 22)	₱9,194,380	₱9,278,314	₱8,146,756
Communications	3,612,217	4,136,956	3,963,376
Repairs and maintenance	3,591,457	4,372,742	9,082,449
Rentals (see Notes 5, 29 and 30)	3,157,626	3,377,925	1,649,624
Janitorial and security	2,790,972	2,397,475	2,275,277
Power and water	2,773,220	2,870,460	3,285,614
Office supplies	2,188,068	2,432,996	2,786,808
Association dues	2,078,264	1,766,897	1,824,828
Corporate social responsibility	2,017,035	4,901,945	3,024,689
Transportation and travel	1,919,563	3,433,891	10,004,043
Supervision and regulation	750,000	750,000	750,000
Trainings and seminars	362,517	108,637	495,968
Freight and handling	282,170	235,173	4,374,339
Entertainment, amusement and recreation	162,806	362,893	1,818,542
Others	7,155,406	6,792,311	6,455,466
	₱205,743,668	₱203,437,512	₱277,384,547

Provisions include provision for credit losses (see Note 7).

Others include casualty losses amounting to ₱2.1 million recognized as a result of typhoon Odette.

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

21. Personnel Costs

	2021	2020	2019
Salaries and wages	₱118,287,194	₱113,208,543	₱105,432,746
Retirement (see Note 17)	8,287,188	6,702,311	4,946,480
Other employee benefits	50,329,160	42,516,500	40,361,443
	₱176,903,542	₱162,427,354	₱150,740,669

22. Depreciation and Amortization

	2021	2020	2019
Depreciation of property, plant and equipment (see Notes 11 and 30):			
Cost of operations (see Note 19)	₱77,302,604	₱84,458,849	₱102,485,003
General and administrative (see Note 20)	8,586,129	8,670,063	7,538,505
	85,888,733	93,128,912	110,023,508
Amortization of franchise:			
Cost of operations (see Note 19)	477,433	477,433	477,433
Amortization of software costs:			
General and administrative (see Note 20)	608,251	608,251	608,251
	₱86,974,417	₱94,214,596	₱111,109,192



23. Unbundling of Rates

Unbundling of Electricity Bill

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

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

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

For the years ended December 31, 2021, 2020 and 2019, BLCI's revenue from distribution of power amounted to ₱973.7 million, ₱946.5 million and ₱1,194.1 million, respectively (see Note 26).

Implementation of VAT

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



24. Significant Contracts

The Group has the following significant contracts:

Parent Company

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

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

SIPC

SIPC and NGCP entered into a Connection Agreement on August 28, 2010, in order for SIPC's generation facilities to remain connected to the transmission system of the NGCP and to continue to avail of the transmission services. This agreement is subject to the terms and conditions for the connection of the generation facility to the transmission system pursuant to the revised rules, terms and conditions for the provision of Open Access Transmission Service. Total transmission charges, lodged in "Others" under "Cost of operations" amounted to ₱5.8 million, ₱6.3 million and ₱7.0 million in 2021, 2020 and 2019, respectively (see Note 19).

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

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



On July 3, 2019 and July 25, 2019, SIPC entered into an ASPA with NGCP for the supply of dispatchable reserve and contingency reserve under firm and non-firm arrangements from SIPC's Panay Diesel Power Plant. The term of this agreement is for a period of five (5) years commencing upon receipt of a final approval, or in the absence thereof, a provisional approval by the ERC. As of December 31, 2021, the ASPA is still for approval by ERC.

As of December 31, 2021, SIPC's power supply contract with a distribution utility has already expired and three others for approval by the ERC for the supply of peaking power requirements with terms ranging from three to five years from effectivity of the contracts.

BLCI

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

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

Pursuant to Section 8 of R.A. No. 9136, the National Transmission Corporation (TransCo) was created and assumed the electrical transmission functions of the NPC. On November 13, 2006, BLCI and TransCo entered into a Transmission Service Agreement (TSA) to support the CSEE between BLCI and NPC. By virtue of R.A. No. 9511 dated December 1, 2008, the NGCP was granted a franchise to engage in the business of conveying or transmitting electricity through high voltage backbone system of interconnected transmission lines, substations and related facilities and for other purposes. These activities were previously undertaken by TransCo.

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

Total power purchases from ULGEI, KEPCO SPC, NGCP and PEMC/IEMOP, net of discounts, amounted to ₱863.36 million, ₱794.8 million, and ₱1,030.9 million in 2021, 2020 and 2019, respectively, and presented as "Purchased power" under "Cost of operations" in the consolidated statements of comprehensive income (see Note 19).

The outstanding payables to ULGEI, KEPCO SPC, NGCP and PEMC/IEMOP included under "Trade and other payables" (see Note 14), on purchased power amounted to ₱51.08 million and ₱90.9 million as of December 31, 2021 and 2020, respectively.



25. Income Tax

	2021	2020	2019
Current	₱77,005,217	₱125,379,407	₱152,142,534
Deferred	4,620,497	(2,126,082)	(3,613,760)
	₱81,625,714	₱123,253,325	₱148,528,774

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

	2021	2020	2019
Income before income tax	₱1,279,338,784	₱1,756,599,765	₱1,966,696,191
Provision for income tax computed at 25% and 20% for 2021 and 30% for 2020 and 2019	₱319,592,759	₱526,979,930	₱590,008,857
Adjustments to income tax resulting from:			
Equity in net earnings of associates	(216,962,474)	(364,036,470)	(398,240,914)
Impact of OSD	(13,026,245)	(23,033,087)	(17,555,719)
Interest income already subjected to final tax	(8,608,745)	(15,493,374)	(30,719,030)
Others	630,419	(1,163,674)	5,035,580
	₱81,625,714	₱123,253,325	₱148,528,774

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

	2021	2020
Deferred income tax assets on:		
Asset retirement obligation	₱22,430,472	₱25,642,699
Pension liabilities	6,541,368	8,432,298
Unrealized foreign exchange loss	106	1,286
	28,971,946	34,076,283
Deferred income tax liabilities on:		
Excess of fair value over acquisition cost - property, plant and equipment and inventory	601,838	754,133
Unrealized forex exchange gain	23,684	-
	625,522	754,133
	₱28,346,424	₱33,322,150

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



The Parent Company, SIPC and BLCI availed of the OSD in the computation of their taxable income in 2021, 2020 and 2019.

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 ₱100.0 million, excluding the value of the land on which the entity's office, plant and equipment are situated, and taxable income of more than ₱5.0 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 Group 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.

26. Segment Information

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

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

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

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

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



The Group earned inter-segment revenues amounting to nil in 2021 and 2020 and ₱0.3 million in 2019, respectively, pertaining to the supply of emergency power by SPC and SIPC to BLCI.

2021						
	Before Eliminations					After Eliminations/ Consolidated
	Generation	Distribution	Others	Total	Eliminations	
Revenue	₱1,495,725,744	₱973,658,521	₱-	₱2,469,384,265	₱-	₱2,469,384,265
Income before income tax	1,897,868,015	17,604,966	4,889,220	1,920,362,201	(641,023,417)	1,279,338,784
Net income	1,822,421,878	11,425,389	4,889,220	1,838,736,487	(641,023,417)	1,197,713,070
Total assets	7,344,102,008	645,719,620	80,012,500	8,069,834,128	2,282,390,810	10,352,224,938
Property, plant and equipment (see Note 11)	505,488,253	225,009,267	-	730,497,520	1,268,382	731,765,902
Total liabilities	504,637,301	431,032,301	132,434	935,802,036	(5,936,033)	929,866,003
Depreciation and amortization (see Note 22)	61,537,016	25,437,401	-	86,974,417	-	86,974,417
Capital expenditures	27,818,771	42,958,309	-	70,777,080	-	70,777,080
2020						
	Before Eliminations					After Eliminations/ Consolidated
	Generation	Distribution	Others	Total	Eliminations	
Revenue	₱1,049,533,098	₱946,537,844	₱-	₱1,996,070,942	₱-	₱1,996,070,942
Income before income tax	2,199,377,721	51,270,341	26,661,280	2,277,309,342	(520,709,577)	1,756,599,765
Net income	2,090,835,118	36,559,619	26,661,280	2,154,056,017	(520,709,577)	1,633,346,440
Total assets	8,097,928,052	709,556,687	75,102,801	8,882,587,540	2,557,435,766	11,440,023,306
Property, plant and equipment (see Note 11)	538,610,286	209,804,715	-	748,415,001	1,268,382	749,683,383
Total liabilities	409,270,372	483,883,274	111,956	893,265,602	(8,514,120)	884,751,482
Depreciation and amortization (see Note 22)	72,192,334	21,712,199	-	93,904,533	310,063	94,214,596
Capital expenditures	18,457,862	31,006,109	-	49,463,971	-	49,463,971
2019						
	Before Eliminations					After Eliminations/ Consolidated
	Generation	Distribution	Others	Total	Eliminations	
Revenue	₱1,605,251,205	₱1,194,092,629	₱-	₱2,799,343,834	(₱334,596)	₱2,799,009,238
Income before income tax	2,330,456,150	90,883,395	9,633,731	2,430,973,276	(464,277,085)	1,966,696,191
Net income	2,203,435,595	69,375,176	9,633,731	2,282,444,502	(464,277,085)	1,818,167,417
Total assets	7,521,218,442	770,043,921	90,366,170	8,381,628,533	2,714,073,870	11,095,702,403
Property, plant and equipment (see Note 11)	591,736,507	200,437,564	-	792,174,071	1,578,445	793,752,516
Total liabilities	428,101,098	523,430,125	111,014	951,642,237	(18,339,846)	933,302,391
Depreciation and amortization (see Note 22)	91,773,451	19,335,741	-	111,109,192	-	111,109,192
Capital expenditures	89,332,323	23,579,176	-	112,911,499	-	112,911,499

The Group's revenue from contracts with customers is mainly from generation and distribution services. Set out below is the disaggregation of the Group's revenue from contracts with customer in 2021, 2020 and 2019:

2021			
	Generation	Distribution	Total
Revenue from power supply contracts and ancillary services	₱799,436,314	₱-	₱799,436,314
Revenue from market power trading	696,289,430	-	696,289,430
Revenue from distribution services (see Note 23)	-	973,658,521	973,658,521
Total revenue	1,495,725,744	973,658,521	2,469,384,265
Revenue from management services presented as "Service income" (see Note 5)	40,002,385	-	40,002,385
Total	₱1,535,728,129	₱973,658,521	₱2,509,386,650



	2020		
	Generation	Distribution	Total
Revenue from power supply contracts and ancillary services	₱889,961,519	₱—	₱889,961,519
Revenue from market power trading	159,571,579	—	159,571,579
Revenue from distribution services (see Note 23)	—	946,537,844	946,537,844
Total revenue	1,049,533,098	946,537,844	1,996,070,942
Revenue from management services presented as "Service income" (see Note 5)	120,007,156	—	120,007,156
Total	₱1,169,540,254	₱946,537,844	₱2,116,078,098

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

Revenue from the Group's major customers, which account for 32%, 41% and 54% and 48% in 2021, 2020 and 2019, respectively, amounted to ₱787.4 million, ₱816.2 million and ₱1,133.8 million, respectively.

Eliminations

Eliminations are part of detailed reconciliations presented below:

Reconciliation of Net Income

	2021	2020	2019
Segment net income	₱1,838,736,487	₱2,154,056,017	₱2,278,444,502
Equity in net earnings of associates (see Note 10)	867,849,896	1,213,454,900	1,327,469,713
Dividend income from associates (see Note 10)	(1,146,799,813)	(1,381,016,911)	(1,412,024,298)
Dividend income from subsidiaries	(362,073,500)	(353,147,566)	(375,722,500)
Group net income	₱1,197,713,070	₱1,633,346,440	₱1,818,167,417

Reconciliation of Total Assets

	2021	2020
Segment assets	₱8,071,102,510	₱8,883,855,922
Inter-segment receivables	(14,575,375)	(17,153,460)
Investments in associates and subsidiaries	2,263,175,787	2,540,798,828
Goodwill	32,522,016	32,522,016
Group assets	₱10,352,224,938	₱11,440,023,306



Reconciliation of Total Liabilities

	2021	2020
Segment liabilities	₱935,802,036	₱893,265,602
Inter-segment payables	(5,936,033)	(8,514,120)
Group liabilities	₱929,866,003	₱884,751,482

Indicators

The following financial indicators are used, among others, by management to evaluate the performance of the Group as of and for the years ended December 31, 2021, 2020 and 2019:

	2021	2020	2019
For the years ended December 31:			
Earnings per share (see Note 27)	₱0.80	₱1.07	₱1.19
Share in net earnings of associates (see Note 10)	867,849,896	1,213,454,900	1,327,469,713
Return on equity (total comprehensive income divided by average total equity)	11.99%	15.80%	17.93%
Return on assets (total comprehensive income divided by average total assets)	10.99%	14.52%	16.43%
Cash flows:			
Net cash flows from operating activities	300,434,967	629,238,373	663,826,139
Net cash flows from investing activities	1,065,237,033	1,335,891,638	1,302,561,276
Net cash flows used in financing activities	(2,327,504,748)	(1,247,833,991)	(1,675,050,395)
As of December 31:			
Cash and cash equivalents (see Note 6)	₱2,984,110,635	₱3,944,306,886	₱3,227,403,650
Current ratio (total current assets including noncurrent assets held for sale divided by total current liabilities including liabilities directly associated with noncurrent assets held for sale)	7.21	9.71	7.82
Debt ratio (total liabilities divided by total assets)	0.09	0.08	0.08
Debt-to-equity ratio (total liabilities divided by total equity)	0.10	0.08	0.09
Solvency ratio (total comprehensive income before depreciation and amortization divided by total liabilities)	1.38	1.96	2.06



27. Earnings Per Share

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

	2021	2020	2019
Net income attributable to equity holders of the Parent	₱1,190,653,672	₱1,603,436,958	₱1,782,279,548
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	₱0.80	₱1.07	₱1.19

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

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

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

28. Financial Risk Management Objectives and Policies

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

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

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

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

Interest Rate Risk

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

As of December 31, 2021 and 2020, the Group does not have a financial liability that is exposed to interest rate risk.



Liquidity Risk

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

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

2021						
	Total	Current	1 to 30 Days	31 to 60 Days	61 to 90 Days	Over 90 Days
Financial Assets						
At amortized cost:						
Cash and cash equivalents	₱2,984,110,635	₱2,984,110,635	₱-	₱-	₱-	₱-
Trade and other receivables						
NPC	1,015,262	-	-	-	-	1,015,262
Receivable from customers	307,274,236	156,633,651	44,133,687	13,797,096	10,952,451	81,757,351
Dividends receivable	79,999,911	79,999,911	-	-	-	-
Current portion of PSALM deferred adjustments	36,798,477	36,798,477	-	-	-	-
Due from related parties	2,190,509	79,314	15,000	18,450	72,762	2,004,983
Others	62,549,226	32,934,724	4,661,276	3,431,009	2,119,080	19,403,137
	489,827,621	306,446,077	48,809,963	17,246,555	13,144,293	104,180,733
PSALM deferred adjustments (included in "Other noncurrent assets")	72,370,338	-	-	-	-	72,370,338
	3,546,308,594	3,290,556,712	48,809,963	17,246,555	13,144,293	176,551,071
At FVOCI:						
Investment in proprietary club shares	8,000,000	-	-	-	-	8,000,000
	3,554,308,594	3,290,556,712	48,809,963	17,246,555	13,144,293	184,551,071
Financial Liabilities						
Trade and other payables						
Trade	329,057,824	308,846,970	7,172,718	5,308,674	1,980,569	5,748,893
Nontrade	48,837,121	40,412,010	66,544	52,037	-	8,306,530
Accrued expenses	24,945,253	17,357,746	59,338	59,338	356,029	7,112,802
Dividends payable	4,342,484	4,342,484	-	-	-	-
Due to related parties	1,012,353	194,600	-	-	-	817,753
	408,195,035	371,153,810	7,298,600	5,420,049	2,336,598	21,985,978
Customers' deposits	186,776,397	-	-	-	-	186,776,397
Lease liabilities	2,662,317	-	-	-	-	2,662,317
Other noncurrent liability	72,370,338	-	-	-	-	72,370,338
	670,004,087	371,153,810	7,298,600	5,420,049	2,336,598	283,795,030
Net Financial Assets (Liabilities)	₱ 2,884,304,507	₱2,919,402,902	₱41,511,363	₱11,826,506	₱10,807,695	(₱99,243,959)

2020						
	Total	Current	1 to 30 Days	31 to 60 Days	61 to 90 Days	Over 90 Days
Financial Assets						
At amortized cost:						
Cash and cash equivalents	₱3,944,306,886	₱3,944,306,886	₱-	₱-	₱-	₱-
Trade and other receivables						
Receivable from customers	255,677,034	130,110,054	39,124,107	20,520,943	12,731,595	53,190,335
Current portion of PSALM deferred adjustments	36,798,477	36,798,477	-	-	-	-
Due from related parties	2,005,050	115,049	15,000	31,133	118,198	1,725,670
PSALM	1,015,262	-	-	-	-	1,015,262
Others	42,559,677	7,942,519	1,708,811	1,337,433	1,944,229	29,626,685
	338,055,500	174,966,099	40,847,918	21,889,509	14,794,022	85,557,952
PSALM deferred adjustments (included in "Other noncurrent assets")	109,168,815	-	-	-	-	109,168,815
	4,391,531,201	4,119,272,985	40,847,918	21,889,509	14,794,022	194,726,767
At FVOCI:						
Investment in proprietary club shares	7,400,000	-	-	-	-	7,400,000
	4,398,931,201	4,119,272,985	40,847,918	21,889,509	14,794,022	202,126,767

(Forward)



2020						
	Total	Current	1 to 30 Days	31 to 60 Days	61 to 90 Days	Over 90 Days
Financial Liabilities						
Trade and other payables						
Trade	P249,841,518	P209,879,700	P3,936,389	P1,234,420	P627,137	P34,163,872
Nontrade	41,295,713	9,750,577	186,627	46,998	63,473	31,248,038
Accrued expenses	41,252,260	39,065,525	-	-	-	2,186,735
Due to related parties	712,203	-	-	215,160	-	497,043
	333,101,694	258,695,802	4,123,016	1,496,578	690,610	68,095,688
Customers' deposits	174,742,186	-	-	-	-	174,742,186
Lease liabilities	6,626,789	-	-	-	-	6,626,789
Other noncurrent liability	109,168,815	-	-	-	-	109,168,815
	623,639,484	258,695,802	4,123,016	1,496,578	690,610	358,633,478
Net Financial Assets (Liabilities)	P3,775,291,717	P3,860,577,183	P36,724,902	P20,392,931	P14,103,412	(P156,506,711)

Credit Risk

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

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

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

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

2021			
	Maximum exposure	Offset	Exposure to credit risk
At amortized cost:			
Cash and cash equivalents (excluding cash on hand)	P2,983,125,816	(P9,020,940)	P2,974,104,876
Trade and other receivables	489,827,621	(115,381,160)	374,446,461
PSALM deferred adjustments (included in "Other noncurrent assets")	72,370,338	-	72,370,338
	P3,545,323,775	(P124,402,100)	P3,420,921,675

2020			
	Maximum exposure	Offset	Exposure to credit risk
At amortized cost:			
Cash and cash equivalents (excluding cash on hand)	P3,943,238,772	(P9,396,869)	P3,933,841,903
Trade and other receivables	338,055,500	(109,525,237)	228,530,263
PSALM deferred adjustments (included in "Other noncurrent assets")	109,168,815	-	109,168,815
	P4,390,463,087	(P118,922,106)	P4,271,540,981



As of December 31, 2021 and 2020, the Group's significant concentration of credit risk pertains to its trade and other receivables and PSALM deferred adjustments amounting to ₱562.2 million and ₱447.2 million, respectively, and impaired financial assets, determined based on probability of collection, are adequately covered with allowance.

The following are the details of the Group'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 Group is minimal as these are deposited in reputable banks which have good bank standing, and is considered to have low credit risk.
- *Due from NPC/PSALM and other receivables* - 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 Group applied the simplified approach 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 ₱48.3 million and ₱39.8 million. 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	₱-	₱-	₱39,789,858	₱498,321,064	₱538,110,922
Loss allowance	-	-	(39,789,858)	(8,493,443)	(48,283,301)
Carrying amount	₱-	₱-	₱-	₱489,827,621	₱489,827,621

2020					
	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Lifetime ECL Simplified Approach	Total
Gross carrying amount	₱-	₱-	₱37,162,187	₱340,683,171	₱377,845,358
Loss allowance	-	-	(37,162,187)	(2,627,671)	(39,789,858)
Carrying amount	₱-	₱-	₱-	₱338,055,500	₱338,055,500

The Group grades its financial assets as follows:

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



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

Fair Value of Financial Assets and Financial Liabilities

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

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

- *Cash and Cash Equivalents, Trade and Other Receivables and Trade and Other Payable.* 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.
- *Noncurrent Receivable (included in "Other Noncurrent Assets") and Other Noncurrent Liability.* The fair values of the noncurrent receivable and noncurrent liability are based on the net present value of cash flows using the prevailing market rate of interest. As of December 31, 2021 and 2020, the carrying values of the noncurrent receivable and noncurrent liability approximate their fair values.
- *Customers' Deposits.* The fair value of customers' deposits approximates the carrying value as (1) bill deposits earn interest at the prevailing market interest rate in accordance with regulatory guidelines and (2) the timing and related amounts of future cash flows relating to material deposits cannot be reasonably and reliably estimated for purposes of establishing their fair values using an alternative valuation technique.

As of December 31, 2021 and 2020, the Group considers its investment in proprietary club shares measured and carried at fair values of ₱8.0 million and of ₱7.4 million under Level 1 classification, respectively (see Notes 3 and 12). The Group also considers its noncurrent receivable amounting to ₱72.4 million and ₱109.2 million as of December 31, 2021 and 2020 respectively; noncurrent liability amounting to ₱72.4 million and ₱109.2 million as of December 31, 2021 and 2020, respectively; and customers' deposits amounting to ₱186.8 million and ₱174.7 million as of December 31, 2021 and 2020, respectively, under the Level 3 classification.

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.



29. Other Matters

Electricity Power Industry Reform Act (EPIRA) of 2001

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

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

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

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

Land Lease Agreements (LLAs)

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

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

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

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



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

Under the LLAs, the Parent Company and SIPC shall use and occupy the leased premises primarily for the operation, management, expansion and maintenance of the power plants, and shall not assign or transfer any of their right under the LLA or sublease all or any part of the leased premises without the prior consent of PSALM. The Parent Company and SIPC, at their own expense, shall be solely responsible for obtaining all the necessary authorizations, licenses and permits for any alterations, additions, facilities, improvements and installations introduced on the leased premises. Within a period of 180 days from the termination of the LLAs or expiration of the lease terms, the Parent Company and SIPC are obliged to perform activities to facilitate clean-up, return and surrender of the leased premises (see Notes 3 and 4).

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

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

The remaining prepaid rent as of December 31, 2018 amounting to ₱5.3 million was derecognized upon adoption of PFRS 16 effective January 1, 2019 (see Notes 11 and 30).

Rent expense under the LLAs amounted to nil in 2021, 2020 and 2019, respectively. (see Notes 20 and 22).

PSALM's Cost Recovery Adjustments

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

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

The ERC subsequently clarified that the GRAM and ICERA DAA are deferred adjustments, which were incurred by PSALM/NPC in supplying energy during the corresponding period; thus, it should be recovered/refunded by PSALM/NPC to its customers. Hence, the Distribution Utilities (DUs) are not just mere collectors of the said DAA but these are charges that they should pay to NPC/PSALM and charged to their customers as part of their generation charge. In the same Order, the ERC directed the DUs to resume the implementation of the GRAM and ICERA starting the January 2018 billing period.



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

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

The current portion of the Group's PSALM deferred adjustments amounting to ₱36.8 million as of December 31, 2021 and 2020, respectively, is recorded under "Trade and other receivables" and the noncurrent portion amounting to ₱72.4 million and ₱109.2 million as of December 31, 2021 and 2020, respectively, are presented as part of "Other noncurrent assets", in the consolidated statements of financial position (see Notes 7 and 12). The current and noncurrent portions of the corresponding amounts due to PSALM was presented as part of "Nontrade" under "Trade and other payables" and "Other noncurrent liability" in the consolidated statement of financial position as of December 31, 2021 and 2020.

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

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

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

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

On December 9, 2015, the SC resolved to deny the Motion for Reconsideration. Thus, a Motion For Leave to File and Admit the Attached Urgent Motion for Second Reconsideration and/or Referral to the En Banc was filed by the Parent Company on February 2, 2016. However, on April 6, 2016, the SC issued a Resolution where it resolved among others to deny the said Motion For Leave and noted without action, the attached Urgent Motion for Second Reconsideration and /or Referral to En Banc, in view of the denial of the Motion for Leave. Accordingly, an amount equivalent to ₱1,143.2 million (i.e., amount paid by the Parent Company to PSALM in 2014, net of withholding tax) was recognized as other noncurrent receivable as of December 31, 2016 and 2015.



On October 5, 2016, the SC granted the manifestation/motion of Therma Power Visayas, Inc. (TPVI) dated March 16, 2016 praying for the reinstatement of the notice of award in favor of TPVI dated April 30, 2014. The Parent Company then filed an Urgent Motion For Reconsideration with Alternative Motion to Refer to the En Banc, on November 2, 2016. In a Resolution dated November 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 consolidated statements of comprehensive income (see Note 8).

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

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

Donation of ODPP to the Technical Education and Skills Development Authority (TESDA)

On December 9, 2021, the Board of Directors of SIPC approved the donation of ODPP to TESDA, a government agency tasked to manage and supervise technical education and skills development in the Philippines. This is in relation to SIPC's intention to promote education and welfare among the people in Olango Island and nearby areas. The donation, approximately worth ₱4.1 million of equipment, materials and related facilities, excludes land and fixed structures and improvements.

The Deed of Donation was executed on February 14, 2022.



30. Lease Agreements

The Group has entered into various leases for rooms, office spaces, parking lots, sub transmission line steel post space, and parcels of land which include those with other landowners and those with respect to its LLA with PSALM (see Note 29). Leases of parcels of land generally have lease terms between 1–25 years. Lease terms for the other leased assets generally vary between five months to 4 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 19 and 20). Some of the lease contracts have expired in 2020 and 2019.

Set out below are the carrying amounts of the Company's right-of-use assets, presented as part of property, plant and equipment, and lease liabilities and the movements during the years ended December 31, 2021 and 2020:

2021				
	Right-of-use Assets			Lease Liabilities
	Land	Office Space	Total	
At January 1	₱6,718,448	₱2,405,921	₱9,124,369	₱6,172,755
Depreciation expense	(1,027,024)	(2,405,921)	(3,432,945)	–
Interest expense	–	–	–	112,059
Payments	–	–	–	(1,877,498)
Pre-termination	(1,075,946)	–	(1,075,946)	(1,744,999)
At December 31	₱4,615,478	₱–	₱4,615,478	₱2,662,317

2020				
	Right-of-use Assets			Lease Liabilities
	Land	Office Space	Total	
At January 1	₱7,289,017	₱6,125,533	₱13,414,550	₱10,487,281
Depreciation expense	(570,569)	(3,719,612)	(4,290,181)	–
Interest expense	–	–	–	502,278
Payments	–	–	–	(4,816,804)
At December 31	₱6,718,448	₱2,405,921	₱9,124,369	₱6,172,755

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

	2021	2020
Depreciation expense of -of-use assets	₱3,432,945	₱4,290,181
Interest expense on lease liabilities	112,059	502,278
Rent expense - short-term leases (see Notes 19 and 20)	4,586,277	3,991,397
	₱8,131,281	₱8,783,856

Shown below is the maturity analysis as of December 31, 2021 and 2020 of the undiscounted lease payments:

	2021	2020
One year	₱2,622,317	₱4,911,163
More than 1 years to 2 years	–	408,482
More than 2 years to 3 years	–	408,482
More than 3 years to 4 years	–	449,331
More than 5 years	–	449,331
	₱2,622,317	₱6,226,789

