

the financial and operating policies of SECI by virtue of an agreement, making it eligible for consolidation in accordance with PFRS 10. SECI and SLCI have not started commercial operations.

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

The consolidated financial statements of the Parent Company and its subsidiaries (collectively referred to as the "Group") were authorized for issue by the Board of Directors (BOD) of the Parent Company on April 6, 2022.

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

Basis of Preparation

The Group's consolidated financial statements have been prepared on a historical cost basis, except for financial assets at FVOCI which have been measured at fair value, and are presented in Philippine Peso, the functional currency of the companies in the Group. All amounts are rounded to the nearest Peso except as otherwise indicated.

Statement of Compliance

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

Principles of Consolidation

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

Subsidiaries are fully consolidated from the date control is transferred to the Parent Company and cease to be consolidated from the date control is transferred out of the Parent Company. Control is established when the Parent Company is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee.

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

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

- derecognizes the assets (including goodwill) and liabilities of the subsidiary;
- derecognizes the carrying amount of any non-controlling interest;
- derecognizes the cumulative translation differences, recorded in equity;
- recognizes the fair value of the consideration received;
- recognizes the fair value of any investment retained;
- recognizes any surplus or deficit in profit or loss; and



- reclassifies the Parent Company's share of components previously recognized in other comprehensive income to profit or loss or retained earnings, as appropriate.

New Standards, Interpretations and Amendments

The accounting policies adopted are consistent with those of the previous financial year, except for the adoption of amendments effective in 2021. The Group has not early adopted any standard, interpretation or amendment that has been issued but is not yet effective.

Effective January 1, 2021

- Amendments to PFRS 9, PAS 39, PFRS 7, PFRS 4 and PFRS 16, Interest Rate Benchmark Reform - Phase 2

The amendments provide the following temporary reliefs which address the financial reporting effects when an interbank offered rate (IBOR) is replaced with an alternative nearly risk-free interest rate (RFR):

- Practical expedient for changes in the basis for determining the contractual cash flows as a result of IBOR reform
- Relief from discontinuing hedging relationships
- Relief from the separately identifiable requirement when an RFR instrument is designated as a hedge of a risk component

The Group shall also disclose information about:

- The nature and extent of risks to which the entity is exposed arising from financial instruments subject to IBOR reform, and how the entity manages those risks; and
- Their progress in completing the transition to alternative benchmark rates, and how the entity is managing that transition

The Group adopted the amendments beginning January 1, 2021 and did not have any impact on the financial statements.

Effective April 1, 2021

- Amendments to PFRS 16, COVID-19-related Rent Concessions beyond June 30, 2021

The amendments provide relief to lessees from applying the PFRS 16 requirement on lease modifications to rent concessions arising as a direct consequence of the COVID-19 pandemic. A lessee may elect not to assess whether a rent concession from a lessor is a lease modification if it meets all of the following criteria:

- The rent concession is a direct consequence of COVID-19;
- The change in lease payments results in a revised lease consideration that is substantially the same as, or less than, the lease consideration immediately preceding the change;
- Any reduction in lease payments affects only payments originally due on or before June 30, 2022; and
- There is no substantive change to other terms and conditions of the lease.

A lessee that applies this practical expedient will account for any change in lease payments resulting from the COVID-19 related rent concession in the same way it would account for a change that is not a lease modification, i.e., as a variable lease payment.



The amendments are effective for annual reporting periods beginning on or after April 1, 2021. Earlier application is permitted.

The Group adopted the amendment beginning April 1, 2021 and the adoption of these amendments did not have any impact on the financial statements.

Standards Issued but not yet Effective

Pronouncements issued but not yet effective are listed below. Unless otherwise indicated, the Group does not expect that the future adoption of the said pronouncements will have a significant impact on its financial statements. The Group intends to adopt the following pronouncements when they become effective.

Effective beginning on or after January 1, 2022

- Amendments to PFRS 3, *Business Combinations*, Reference to the Conceptual Framework

The amendments are intended to replace a reference to the Framework for the Preparation and Presentation of Financial Statements, issued in 1989, with a reference to the Conceptual Framework for Financial Reporting issued in March 2018 without significantly changing its requirements. The amendments added an exception to the recognition principle of PFRS 3 to avoid the issue of potential 'day 2' gains or losses arising for liabilities and contingent liabilities that would be within the scope of PAS 37, *Provisions, Contingent Liabilities and Contingent Assets* or Philippine-IFRIC 21, *Levies*, if incurred separately.

At the same time, the amendments add a new paragraph to PFRS 3 to clarify that contingent assets do not qualify for recognition at the acquisition date.

The amendments are effective for annual reporting periods beginning on or after January 1, 2022 and apply prospectively. The Group is currently assessing the impact of the amendment in light of the subsequent events discussed in Note 31.

- Amendments to PAS 16, *Property, Plant and Equipment*: Proceeds before Intended Use

The amendments prohibit entities deducting from the cost of an item of property, plant and equipment, any proceeds from selling items produced while bringing that asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Instead, an entity recognizes the proceeds from selling such items, and the costs of producing those items, in the statement of comprehensive income.

The amendment is effective for annual reporting periods beginning on or after January 1, 2022 and must be applied retrospectively to items of property, plant and equipment made available for use on or after the beginning of the earliest period presented when the entity first applies the amendment.

The amendments are not expected to have a material impact on the financial statements of the Group.



- Amendments to PAS 37, Onerous Contracts - Costs of Fulfilling a Contract

The amendments specify which costs an entity needs to include when assessing whether a contract is onerous or loss-making. The amendments apply a “directly related cost approach”. The costs that relate directly to a contract to provide goods or services include both incremental costs and an allocation of costs directly related to contract activities. General and administrative costs do not relate directly to a contract and are excluded unless they are explicitly chargeable to the counterparty under the contract.

The amendments are effective for annual reporting periods beginning on or after January 1, 2022. The Group will apply these amendments to contracts for which it has not yet fulfilled all its obligations at the beginning of the annual reporting period in which it first applies the amendments.

The amendments are not expected to have a material impact on the financial statements of the Group.

- Annual Improvements to PFRSs 2018–2020 Cycle

- Amendments to PFRS 1, *First-time Adoption of Philippines Financial Reporting Standards*, Subsidiary as a First-time Adopter

The amendment permits a subsidiary that elects to apply paragraph D16(a) of PFRS 1 to measure cumulative translation differences using the amounts reported by the parent, based on the parent’s date of transition to PFRS. This amendment is also applied to an associate or joint venture that elects to apply paragraph D16(a) of PFRS 1.

The amendment is effective for annual reporting periods beginning on or after January 1, 2022 with earlier adoption permitted. The amendments are not expected to have a material impact on the Group.

- Amendments to PFRS 9, Fees in the ‘10 per cent’ Test for Derecognition of Financial Liabilities

The amendment clarifies the fees that an entity includes when assessing whether the terms of a new or modified financial liability are substantially different from the terms of the original financial liability. These fees include only those paid or received between the borrower and the lender, including fees paid or received by either the borrower or lender on the other’s behalf. An entity applies the amendment to financial liabilities that are modified or exchanged on or after the beginning of the annual reporting period in which the entity first applies the amendment.

The amendment is effective for annual reporting periods beginning on or after January 1, 2022 with earlier adoption permitted. The Group will apply the amendments to financial liabilities that are modified or exchanged on or after the beginning of the annual reporting period in which the entity first applies the amendment.

The amendments are not expected to have a material impact on the Group.



- Amendments to PAS 41, *Agriculture*, Taxation in Fair Value Measurements

The amendment removes the requirement in paragraph 22 of PAS 41 that entities exclude cash flows for taxation when measuring the fair value of assets within the scope of PAS 41.

An entity applies the amendment prospectively to fair value measurements on or after the beginning of the first annual reporting period beginning on or after January 1, 2022 with earlier adoption permitted.

The amendments are not expected to have any impact on the financial statements of the Group since it is not engaged in the agricultural business.

Effective beginning on or after January 1, 2023

- Amendments to PAS 12, *Deferred Tax related to Assets and Liabilities arising from a Single Transaction*

The amendments narrow the scope of the initial recognition exception under PAS 12, so that it no longer applies to transactions that give rise to equal taxable and deductible temporary differences.

The amendments also clarify that where payments that settle a liability are deductible for tax purposes, it is a matter of judgement (having considered the applicable tax law) whether such deductions are attributable for tax purposes to the liability recognized in the financial statements (and interest expense) or to the related asset component (and interest expense).

An entity applies the amendments to transactions that occur on or after the beginning of the earliest comparative period presented for annual reporting periods on or after January 1, 2023.

The amendments are not expected to have any impact on the financial statements of the Group.

- Amendments to PAS 8, *Definition of Accounting Estimates*

The amendments introduce a new definition of accounting estimates and clarify the distinction between changes in accounting estimates and changes in accounting policies and the correction of errors. Also, the amendments clarify that the effects on an accounting estimate of a change in an input or a change in a measurement technique are changes in accounting estimates if they do not result from the correction of prior period errors.

An entity applies the amendments to changes in accounting policies and changes in accounting estimates that occur on or after January 1, 2023 with earlier adoption permitted. The amendments are not expected to have any impact on the financial statements of the Group.

- Amendments to PAS 1 and PFRS Practice Statement 2, *Disclosure of Accounting Policies*

The amendments provide guidance and examples to help entities apply materiality judgements to accounting policy disclosures. The amendments aim to help entities provide accounting policy disclosures that are more useful by:

- Replacing the requirement for entities to disclose their 'significant' accounting policies with a requirement to disclose their 'material' accounting policies; and



- Adding guidance on how entities apply the concept of materiality in making decisions about accounting policy disclosures.

The amendments to the Practice Statement provide non-mandatory guidance. Meanwhile, the amendments to PAS 1 are effective for annual periods beginning on or after January 1, 2023. Early application is permitted as long as this fact is disclosed. The Group is currently assessing the impact of the amendments.

Effective beginning on or after January 1, 2024

- Amendments to PAS 1, *Presentation of Financial Statements*, Classification of Liabilities as Current or Noncurrent

The amendments clarify paragraphs 69 to 76 of PAS 1, to specify the requirements for classifying liabilities as current or noncurrent. The amendments clarify:

- What is meant by a right to defer settlement;
- That a right to defer must exist at the end of the reporting period;
- That classification is unaffected by the likelihood that an entity will exercise its deferral right; and
- That only if an embedded derivative in a convertible liability is itself an equity instrument would the terms of a liability not impact its classification.

The amendments are effective for annual reporting periods beginning on or after January 1, 2023 and must be applied retrospectively. However, in November 2021, the International Accounting Standards Board (IASB) tentatively decided to defer the effective date to no earlier than January 1, 2024. The Group will continue to assess the impact the amendments will have on the financial statements.

Effective beginning on or after January 1, 2025

- PFRS 17, *Insurance Contracts*

PFRS 17 is a comprehensive new accounting standard for insurance contracts covering recognition and measurement, presentation and disclosure. Once effective, PFRS 17 will replace PFRS 4. This new standard on insurance contracts applies to all types of insurance contracts (i.e., life, non-life, direct insurance and re-insurance), regardless of the type of entities that issue them, as well as to certain guarantees and financial instruments with discretionary participation features. A few scope exceptions will apply.

The overall objective of PFRS 17 is to provide an accounting model for insurance contracts that is more useful and consistent for insurers. In contrast to the requirements in PFRS 4, which are largely based on grandfathering previous local accounting policies, PFRS 17 provides a comprehensive model for insurance contracts, covering all relevant accounting aspects. The core of PFRS 17 is the general model, supplemented by:

- A specific adaptation for contracts with direct participation features (the variable fee approach); and
- A simplified approach (the premium allocation approach) mainly for short-duration contracts



On December 15, 2021, the Financial Reporting Standards Council amended the mandatory effective date of PFRS 17 from January 1, 2023 to January 1, 2025. This is consistent with Circular Letter No. 2020-62 issued by the Insurance Commission which deferred the implementation of PFRS 17 by two (2) years after its effective date as decided by the IASB.

PFRS 17 is effective for reporting periods beginning on or after January 1, 2025, with comparative figures required. Early application is permitted. This amendment does not have an impact on the financial statements of the Group.

Deferred effectivity

- Amendments to PFRS 10, *Consolidated Financial Statements*, and PAS 28, *Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*

The amendments address the conflict between PFRS 10 and PAS 28 in dealing with the loss of control of a subsidiary that is sold or contributed to an associate or joint venture. The amendments clarify that a full gain or loss is recognized when a transfer to an associate or joint venture involves a business as defined in PFRS 3. Any gain or loss resulting from the sale or contribution of assets that does not constitute a business, however, is recognized only to the extent of unrelated investors' interests in the associate or joint venture.

On January 13, 2016, the Financial Reporting Standards Council deferred the original effective date of January 1, 2016 of the said amendments until the IASB completes its broader review of the research project on equity accounting that may result in the simplification of accounting for such transactions and of other aspects of accounting for associates and joint ventures.

The amendments may apply to future transactions of the Group.

3. Summary of Significant Accounting Policies

Cash and Cash Equivalents

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

Financial Instruments - Classification and Measurement

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

- Financial assets measured at amortized cost;
- Financial assets measured at fair value through profit or loss (FVPL);
- Financial assets measured at fair value through other comprehensive income (FVOCI), where cumulative gains or losses previously recognized are reclassified to profit or loss; and
- Financial assets measured at FVOCI, where cumulative gains or losses previously recognized are not reclassified to profit or loss.



Contractual Cash Flows Characteristics. If the financial asset is held within a business model whose objective is to hold assets to collect contractual cash flows or within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets, the Group assesses whether the cash flows from the financial asset represent solely payments of principal and interest (SPPI) on the principal amount outstanding.

In making this assessment, the Group determines whether the contractual cash flows are consistent with a basic lending arrangement, i.e., interest includes consideration only for the time value of money, credit risk and other basic lending risks and costs associated with holding the financial asset for a particular period of time. In addition, interest can include a profit margin that is consistent with a basic lending arrangement. The assessment as to whether the cash flows meet the test is made in the currency in which the financial asset is denominated. Any other contractual terms that introduce exposure to risks or volatility in the contractual cash flows that is unrelated to a basic lending arrangement, such as exposure to changes in equity prices or commodity prices, do not give rise to contractual cash flows that are solely payments of principal and interest on the principal amount outstanding.

Business Model. The Group's business model is determined at a level that reflects how groups of financial assets are managed together to achieve a particular business objective. The Group's business model does not depend on management's intentions for an individual instrument.

The Group's business model refers to how it manages its financial assets in order to generate cash flows. The Group's business model determines whether cash flows will result from collecting contractual cash flows, selling financial assets or both. Relevant factors considered by the Group in determining the business model for a group of financial assets include how the performance of the business model and the financial assets held within that business model are evaluated and reported to the Group's key management personnel, the risks that affect the performance of the business model (and the financial assets held within that business model) and how these risks are managed and how managers of the business are compensated.

Financial Assets at Amortized Cost. A financial asset is measured at amortized cost if (a) it is held within a business model for which the objective is to hold financial assets in order to collect contractual cash flows and (b) the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

These financial assets are initially recognized at fair value plus directly attributable transaction costs and subsequently measured at amortized cost using the effective interest rate (EIR) method, less any impairment in value. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees and costs that are an integral part of the EIR. The amortization is included in "Interest income" in the consolidated statement of income and is calculated by applying the EIR to the gross carrying amount of the financial asset, except for (a) purchased or originated credit-impaired financial assets and (b) financial assets that have subsequently become credit-impaired, where, in both cases, the EIR is applied to the amortized cost of the financial asset. Losses arising from impairment are recognized in "Provision for impairment losses" under "General and administrative expenses" in the consolidated statement of income.

As at December 31, 2021 and 2020, the Group has financial assets at amortized cost consisting of cash and cash equivalents, trade and other receivables, and PSALM deferred adjustments included as part of "Other noncurrent assets" in the consolidated statement of financial position (see Notes 5, 6, 7, 12, 28 and 29).



Financial Assets at FVPL. Financial assets at FVPL are measured at FVPL unless these are measured at amortized cost or at FVOCI. Included in this classification are equity investments held for trading and debt instruments with contractual terms that do not represent solely payments of principal and interest. Financial assets held at FVPL are initially recognized at fair value, with transaction costs recognized in the consolidated statement of income as incurred. Subsequently, they are measured at fair value and any gains or losses are recognized in the consolidated statement of income.

Additionally, even if the asset meets the amortized cost or the FVOCI criteria, the Group may choose at initial recognition to designate the financial asset at FVPL if doing so eliminates or significantly reduces a measurement or recognition inconsistency (an accounting mismatch) that would otherwise arise from measuring financial assets on a different basis.

Trading gains or losses are calculated based on the results arising from trading activities of the Group, including all gains and losses from changes in fair value for financial assets and financial liabilities at FVPL, and the gains or losses from disposal of financial investments.

As at December 31, 2021 and 2020, the Group does not have equity instruments at FVPL.

Financial Assets at FVOCI. A financial asset is measured at FVOCI if (a) it is held within a business model for which the objective is achieved by both collecting contractual cash flows and selling financial assets and (b) its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding. These financial assets are initially recognized at fair value plus directly attributable transaction costs and subsequently measured at fair value. Gains and losses arising from changes in fair value are included in other comprehensive income within a separate component of equity. Impairment losses or reversals, interest income and foreign exchange gains and losses are recognized in profit and loss until the financial asset is derecognized. Upon derecognition, the cumulative gain or loss previously recognized in other comprehensive income is reclassified from equity to profit or loss. This reflects the gain or loss that would have been recognized in profit or loss upon derecognition if the financial asset had been measured at amortized cost. Impairment is measured based on the expected credit loss (ECL) model.

The Group may also make an irrevocable election to measure at FVOCI on initial recognition investments in equity instruments that are neither held for trading nor contingent consideration recognized in a business combination in accordance with PFRS 3. Amounts recognized in OCI are not subsequently transferred to profit or loss. However, the Group may transfer the cumulative gain or loss within equity. Dividends on such investments are recognized in profit or loss, unless the dividend clearly represents a recovery of part of the cost of the investment.

Dividends are recognized in profit or loss only when:

- the Group's right to receive payment of the dividend is established;
- it is probable that the economic benefits associated with the dividend will flow to the Group; and
- the amount of the dividend can be measured reliably.

As at December 31, 2021 and 2020, the Group's financial assets at FVOCI includes proprietary golf club shares recorded as part of "Other noncurrent assets" (see Notes 12 and 28).



Classification of Financial Liabilities. Financial liabilities are measured at amortized cost, except for the following:

- Financial liabilities measured at fair value through profit or loss;
- Financial liabilities that arise when a transfer of a financial asset does not qualify for derecognition or when the Group retains continuing involvement;
- Financial guarantee contracts;
- Commitments to provide a loan at a below-market interest rate; and
- Contingent consideration recognized by an acquirer in accordance with PFRS 3.

A financial liability may be designated at fair value through profit or loss if it eliminates or significantly reduces a measurement or recognition inconsistency (an accounting mismatch) or:

- if a host contract contains one or more embedded derivatives; or
- if a group of financial liabilities or financial assets and liabilities is managed and its performance evaluated on a fair value basis in accordance with a documented risk management or investment strategy.

Where a financial liability is designated at FVPL, the movement in fair value attributable to changes in the Group's own credit quality is calculated by determining the changes in credit spreads above observable market interest rates and is presented separately in other comprehensive income.

The Group's financial liabilities include trade and other payables, customers' deposits and other noncurrent liability (see Notes 5, 14, 15, 28 and 29).

Impairment of Financial Assets

The Group uses the single, forward-looking "expected loss" impairment model and recognizes ECL for the following financial assets that are not measured at FVPL:

- Debt instruments that are measured at amortized cost and FVOCI;
- Loan commitments; and
- Financial guarantee contracts

No ECL is recognized on equity investments.

ECLs are measured in a way that reflects the following:

- an unbiased and probability-weighted amount that is determined by evaluating a range of possible outcomes;
- the time value of money; and
- reasonable and supportable information that is available without undue cost or effort at the reporting date about past events, current conditions and forecasts of future economic conditions.

Financial assets migrate through the following three stages based on the change in credit quality since initial recognition:

- *Stage 1: 12-month ECL.* For credit exposures where there have not been significant increases in credit risk since initial recognition and that are not credit-impaired upon origination, the portion of lifetime ECLs that represent the ECLs that result from default events that are possible within the 12-months after the reporting date are recognized.



- *Stage 2: Lifetime ECL - not credit-impaired.* For credit exposures where there have been significant increases in credit risk since initial recognition on an individual or collective basis but are not credit-impaired, lifetime ECLs representing the ECLs that result from all possible default events over the expected life of the financial asset are recognized.
- *Stage 3: Lifetime ECL - credit-impaired.* Financial assets are credit-impaired when one or more events that have a detrimental impact on the estimated future cash flows of those financial assets have occurred. For these credit exposures, lifetime ECLs are recognized and interest revenue is calculated by applying the credit-adjusted effective interest rate to the amortized cost of the financial asset.

Loss allowances are recognized based on 12-month ECL for debt investment securities that are assessed to have low credit risk at the reporting date. A financial asset is considered to have low credit risk if:

- the financial instrument has a low risk of default;
- the borrower has a strong capacity to meet its contractual cash flow obligations in the near term; or
- adverse changes in economic and business conditions in the longer term may, but will not necessarily, reduce the ability of the borrower to fulfil its contractual cash flow obligations.

The Group considers a debt investment security to have low credit risk when its credit risk rating is equivalent to the globally understood definition of 'investment grade', or when the exposure is less than 30 days past due.

Determination of the Stage for Impairment. At each reporting date, the Group assesses whether there has been a significant increase in credit risk for financial assets since initial recognition by comparing the risk of default occurring over the expected life between the reporting date and the date of initial recognition. The Group considers reasonable and supportable information that is relevant and available without undue cost or effort for this purpose. This includes quantitative and qualitative information and forward-looking analysis.

An exposure will migrate through the ECL stages as asset quality deteriorates. If, in a subsequent period, asset quality improves and also reverses any previously assessed significant increase in credit risk since origination, then the loss allowance measurement reverts from lifetime ECL to 12-month ECL.

Simplified Approach. The simplified approach, where changes in credit risk are not tracked and loss allowances are measured at amounts equal to lifetime ECL, is applied to "Trade and other receivables". The Group has established a provision matrix for commercial and industrial business segments that is based on historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment.

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

Offsetting Financial Instruments

Financial assets and financial liabilities are offset and the net amount reported in the consolidated statement of financial position if, and only if, the Group has a legally enforceable right to offset the recognized amounts and there is an intention to settle on a net basis, or to realize the asset and settle the liability simultaneously. The Group assesses that it has a currently enforceable right of offset if



the right is not contingent on a future event, and is legally enforceable in the normal course of business, event of default, and event of insolvency or bankruptcy of the Group and all of the counterparties.

Derecognition of Financial Assets and Liabilities

Financial Assets. A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is derecognized where:

- the rights to receive cash flows from the asset have expired;
- the Group retains the right to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a 'pass-through' arrangement; or
- the Group has transferred its rights to receive cash flows from the asset and either (i) has transferred substantially all the risks and rewards of the asset, or (ii) has neither transferred nor retained substantially all the risks and rewards of the asset but has transferred control of the asset.

Financial Liabilities. A financial liability is derecognized when the obligation under the liability is discharged or cancelled or has expired.

Fair Value Measurement

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

- In the principal market for the asset or liability; or
- In the absence of a principal market, in the most advantageous market for the asset or liability.

The principal or the most advantageous market must be accessible to the Group.

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

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

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

All assets and liabilities for which fair value is measured or disclosed in the consolidated financial statements are categorized within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

- Level 1 - Quoted (unadjusted) market prices in active markets for identical assets or liabilities;
- Level 2 - Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable; and



- Level 3 - Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable.

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

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

Materials and Supplies

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

Value-Added Tax (VAT)

Revenue, expenses, and assets are recognized net of the amount of VAT, if applicable. VAT from sales of goods and/or services (output VAT) is recognized as payable in the statement of financial position. VAT passed on from purchases of goods or services (input VAT) is recognized as an asset in the statement of financial position to the extent of the recoverable amount.

Investments in Associates

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

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

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

Property, Plant and Equipment

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



The initial cost of property, plant and equipment comprises its purchase price, including import duties, taxes and any directly attributable cost of bringing the asset to its working condition and location for its intended use. Such cost includes the cost of replacing part of such property, plant and equipment when the recognition criteria are met. Cost also includes asset retirement obligation specifically for property, plant and equipment installed/constructed on the leased properties.

Advances to suppliers and contractors to be applied as payment for assets to be classified as property, plant and equipment are presented as noncurrent asset and included as part of "Other noncurrent assets" in the consolidated statement of financial position.

Expenditures incurred after the property, plant and equipment have been put into operations, such as repairs and maintenance, are normally charged to income in the period when the costs are incurred. In situations where it can be clearly demonstrated that the expenditures have resulted in an increase in the future economic benefits expected to be obtained from the use of an item of property, plant and equipment beyond its originally assessed standard of performance, the expenditures are capitalized as additional costs of property, plant and equipment.

The carrying amount of the replaced part, regardless of whether the replaced part had been depreciated separately, is derecognized if an entity recognizes in the carrying amount of an item of property, plant and equipment the cost of a replacement for part of the item. If it is not practicable for an entity to determine the carrying amount of the replaced part, it may use the cost of the replacement as an indication of what the cost of the replaced part was at the time it was acquired or constructed. When each major inspection is performed, its cost is recognized in the carrying amount of the item of property, plant and equipment as a replacement if the recognition criteria are satisfied.

Depreciation of property, plant and equipment commences once the assets are available for use and is computed on a straight-line basis over the estimated useful lives of the assets or the remaining years of Cooperation Period (for applicable assets) or lease term, whichever is shorter, as follows:

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

The remaining useful lives and the depreciation method are reviewed periodically to ensure that the periods and method of depreciation are consistent with the expected pattern of consumption of future economic benefits from items of property, plant and equipment.

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

When assets are retired or otherwise disposed of, the cost and the related accumulated depreciation and any allowance for impairment losses are removed from the accounts and any resulting gain or loss is credited to or charged against current operations.

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



It is the Group's policy to classify right-of-use assets as part of property and equipment. The Group recognizes right-of-use assets at the commencement date of the lease (i.e., the date the underlying asset is available for use). Right-of-use assets are initially measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities. The initial cost of right-of-use assets includes the amount of lease liabilities recognized, initial direct costs incurred, lease payments made at or before the commencement date less any lease incentives received and estimate of costs to be incurred by the lessee in dismantling and removing the underlying asset, restoring the site on which it is located or restoring the underlying asset to the condition required by the terms and conditions of the lease, unless those costs are incurred to produce inventories.

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

Franchise. Included as part of "Intangible assets" in the consolidated statement of financial position, franchise is stated initially at cost. After initial recognition, franchise is valued at cost less accumulated amortization and any allowance for impairment losses. Costs incurred to acquire the franchise to operate the Bohol Provincial Electric System are amortized over 25 years, which is equivalent to the franchise period granted to BLCI and assessed for impairment whenever there is an indication that the franchise may be impaired. The amortization period and the amortization method for the franchise are reviewed at least at each financial year-end. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the franchise is accounted for by changing the amortization period or method, as appropriate, and are treated as changes in accounting estimates. The amortization expense on the franchise is recognized under "Plant and operations" in the consolidated statement of comprehensive income.

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

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

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



Asset Retirement Obligation (ARO)

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

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

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

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

Impairment of Nonfinancial Assets Except Goodwill

The Group assesses at each reporting date whether there is an indication that an asset may be impaired. If any such indication exists, or when annual impairment testing for an asset is required, the Group makes an estimate of the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or cash-generating unit's fair value less costs to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. Where the carrying amount of an asset exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Impairment losses of continuing operations are



recognized in the consolidated statement of comprehensive income in those expense categories consistent with the function of the impaired asset.

An assessment is made at each reporting date as to whether there is any indication that previously recognized impairment losses may no longer exist or may have decreased. If such indication exists, the recoverable amount is estimated. A previously recognized impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognized. If that is the case, the carrying amount of the asset is increased to its recoverable amount. That increased amount cannot exceed the carrying amount that would have been determined, net of depreciation and amortization, had no impairment loss been recognized for the asset in prior years. After such a reversal, the depreciation charge is adjusted in future periods to allocate the asset's revised carrying amount, less any residual value, on a systematic basis over its remaining useful life.

Equity

Capital Stock. Capital stock is recognized at par value for all issued shares.

Additional Paid-in Capital. Considerations received in excess of par value are recognized as additional paid-in capital, net of incremental costs that are directly attributable of the issuance of new shares.

Treasury Stock. Own equity instruments which are reacquired are recognized at cost and deducted from equity. No gain or loss is recognized in the consolidated statement of comprehensive income on the purchase, sale, issue or cancellation of the Group's own equity instruments. Any difference between the carrying amount and the consideration, if reissued, is recognized in additional paid-in capital.

Retained Earnings. Cumulative balance of periodic net income or loss, dividend contributions, prior period adjustments, effect of changes in accounting policy and other capital adjustments. Dividends are recognized as liability and deducted from retained earnings when they are declared.

Non-controlling interests. Represent the equity interests in subsidiaries which are not held by the Group.

Revenue Recognition

Revenue from contracts with customers is recognized when control of the goods or services are transferred to the customer at an amount that reflects the consideration to which the Group expects to be entitled in exchange for those goods or services, excluding amounts collected on behalf of third parties.

Revenue is recognized when the Group satisfies a performance obligation by transferring a promised good or service to the customer, which is when the customer obtains control of the good or service. A performance obligation may be satisfied at a point in time or over time. The amount of revenue recognized is the amount allocated to the satisfied performance obligation.

The Group has concluded that it is the principal in its revenue arrangements because it controls the goods or services before these goods or services are transferred to the customer. The following specific recognition criteria must also be met before revenue is recognized:



Revenue

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

The Group has concluded that revenue should be recognized over time since the customer simultaneously receives and consumes the benefit as the seller supplies power. For power generation where capacity and energy dispatched are separately identified, these two obligations are to be combined as one performance obligation since these are not distinct within the context of the contract as the buyer cannot benefit from the contracted capacity alone without the corresponding energy and the buyer cannot obtain energy without contracting a capacity. The combined performance obligation qualifies as a series of distinct goods or services that are substantially the same and have the same pattern of transfer.

Some contracts with customers provide unspecified quantity of energy, includes provisional Energy Regulatory Commission (ERC) rates that give rise to variable consideration. The variable consideration is estimated at contract inception and constrained until the associated uncertainty is subsequently resolved.

- Revenue of BLCI from the distribution of power also qualifies as a series of distinct goods or services that are substantially the same and have the same pattern of transfer accounted for as one performance obligation. Revenue is recognized over time and based on amounts billed.

Other Income. Other income is recognized as earned when the related services or performance obligations are rendered.

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

Cost and Expense Recognition

Costs and expenses are recognized in the consolidated statement of comprehensive income when incurred.

Leases

The Group assesses at contract inception whether a contract is, or contains, a lease. That is, if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

Group as a lessee. The Group applies a single recognition and measurement approach for all leases, except for short-term leases (i.e., those leases that have a lease term of 12 months or less from the commencement date and do not contain a purchase option) for office spaces, parking lots and leases of low-value assets. The Group recognizes lease liabilities to make lease payments and right-of-use assets representing the right to use the underlying assets.

Lease liabilities. At the commencement date of the lease, the Group recognizes lease liabilities measured at the present value of lease payments to be made over the lease term. The lease payments include fixed payments (including in substance fixed payments) less any lease incentives receivable, variable lease payments that depend on an index or a rate, and amounts expected to be paid under residual value guarantees. The lease payments also include the exercise price of a purchase option



reasonably certain to be exercised by the Group and payments of penalties for terminating the lease, if the lease term reflects the Company exercising the option to terminate. Variable lease payments that do not depend on an index or a rate are recognized as expenses (unless they are incurred to produce inventories) in the period in which the event or condition that triggers the payment occurs.

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

Pension Expense

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

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

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

Defined benefit costs comprise the following:

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

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

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

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

Plan assets are assets that are held by a long-term employee benefit fund or qualifying insurance policies. Plan assets are not available to the creditors of the Group, nor can they be paid directly to the Group. Fair value of plan assets is based on market price information. When no market price is available, the fair value of plan assets is estimated by discounting expected future cash flows



using a discount rate that reflects both the risk associated with the plan assets and the maturity or expected disposal date of those assets (or, if they have no maturity, the expected period until the settlement of the related obligations). If the fair value of the plan assets is higher than the present value of the defined benefit obligation, the measurement of the resulting defined benefit asset is limited to the present value of economic benefits available in the form of refunds from the plan or reductions in future contributions to the plan.

Income Tax

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

Deferred Income Tax. Deferred income tax is provided, using the balance sheet liability method, on temporary differences at the reporting date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

The carrying amount of deferred income tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax assets to be utilized.

Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realized or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted as at the reporting date.

Deferred income tax assets and liabilities are offset, if a legally enforceable right exists to set off current income tax assets against current income tax liabilities and the deferred income taxes relate to the same taxable entity and the same taxation authority.

Deferred income tax items are recognized in correlation to the underlying transaction either in profit or loss or directly in equity.

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

Related Party Transactions

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

Provisions

Provisions are recognized when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. Where the Group expects some or all of a provision to be reimbursed, for example under an insurance contract, the reimbursement is recognized as a separate asset but only when the



reimbursement is virtually certain. If the effect of the time value of money is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessment of the time value of money and, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognized as interest expense.

Foreign-Currency-Denominated Transactions

The consolidated financial statements are presented in Philippine Peso, the functional currency of the companies in the Group. Each entity in the Group determines its own functional currency and items included in the consolidated financial statements of each entity are measured using that functional currency. Transactions in foreign currencies are initially recorded in the functional currency rate prevailing at the date of the transaction.

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

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

Earnings Per Share

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

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

Segment Reporting

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

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

Contingencies

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

Events After the Reporting Period

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



4. Significant Accounting Judgments, Estimates and Assumptions

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

Judgments

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

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

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

Significant judgments in revenue recognition are as follows:

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

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

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

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



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

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

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

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

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

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



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

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

Legal Contingencies. The Group is currently involved in various legal proceedings. The estimate of probable costs for the resolution of possible claims is developed in consultation with outside counsel handling the Group's defense in these matters and is based upon an analysis of potential results of litigation. No provision for probable losses arising from legal contingencies was recognized as of December 31, 2021 and 2020.

Estimates and Assumptions

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

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

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

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



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

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

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

An increase in the Group's allowance for expected credit losses of trade and other receivables, receivable from PSALM deferred adjustments and noncurrent receivable from customers arising from PSALM's deferred adjustments (see Note 29) will increase the Group's recorded expenses and decrease current and noncurrent assets. As of December 31, 2021, and 2020, allowance for expected credit losses amounted to ₱48.3 million and ₱39.8 million, respectively (see Note 7). These receivables, net of allowance for expected credit losses, amounted to ₱487.6 million and ₱336.1 million as of December 31, 2021 and 2020, respectively (see Note 7).

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

Allowance for losses amounted to ₱1.3 million and nil as of December 31, 2021 and 2020, respectively (see Note 8). The carrying value of the materials and supplies, net of allowance for losses, amounted to ₱389.8 million and ₱363.6 million as of December 31, 2021 and 2020, respectively (see Note 8).

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

The Group recognized depreciation expense amounting to ₱85.9 million, ₱93.1 million and ₱110.0 million in 2021, 2020 and 2019, respectively (see Note 22). As of December 31, 2021 and 2020, the aggregate net book values of property, plant and equipment subjected to depreciation amounted to ₱635.1 million and ₱673.0 million, respectively (see Note 11).



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

The Group has written off property, plant and equipment with net book values amounting to ₱2.1 million in 2021 and nil in 2020 and 2019 (see Notes 11 and 20). As of December 31, 2021 and 2020, the aggregate net book values of property, plant and equipment amounted to ₱731.8 million and ₱749.7 million, respectively (see Note 11).

Estimating Impairment of Nonfinancial Assets other than Property, Plant and Equipment. The Group assesses whether there are any indicators of impairment at each reporting date. These nonfinancial assets (prepayments and other current assets, investments in associates, and other noncurrent assets, excluding noncurrent receivable from PSALM) are tested for impairment whenever events or changes in circumstances indicate that the carrying amount of the asset may not be recoverable. The recoverable amount of investments in associates are based on fair value less cost to sell. Fair value less cost to sell is determined to be the amount obtainable from the sale of the underlying net assets of the associate. For the other nonfinancial assets, the recoverable amounts are assessed if there are changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in those assets.

Based on management's assessment, there are no indicators of impairment on these nonfinancial assets. Thus, no impairment loss was recognized in 2021, 2020 and 2019. The carrying amounts of these nonfinancial assets as of December 31 are as follows (see Notes 9, 10, 12):

	2021	2020
Investments in associates	₱5,505,243,597	₱5,782,866,638
Prepayments and other current assets	76,307,342	54,950,450
Other noncurrent assets and intangible assets (excluding noncurrent receivable from PSALM, and financial asset at FVOCI)	33,911,695	24,119,641

Estimating Asset Retirement Obligation (ARO). The Group has a contractual obligation under the LLA with PSALM to dismantle installed assets and restore the leased premises to their original condition at the end of the lease term (see Notes 16 and 29). These estimated costs of dismantling and restoration assume third party estimates. The Group projected the estimate using inflation rates ranging from 2.60%-4.40% and 2.56%-3.00% in 2021 and 2020, respectively, and discount rates of 5.11% and 3.44% in 2021 and 2020, respectively.

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

As of December 31, 2021 and 2020, the ARO has a carrying value of ₱89.7 million and ₱85.5 million, respectively (see Note 16).



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

The Group has deferred income tax assets amounting to ₱29.0 million and ₱34.1 million as of December 31, 2021 and 2020, respectively (see Note 25).

Estimating Impairment of Goodwill. The Group determines whether goodwill is impaired at least on an annual basis. This requires an estimation of the value in use of the cash-generating units to which the goodwill is allocated. In estimating the value in use, the Group estimated annual growth at 4%–7% in energy sold and 5%–7% escalation of operating expenses for the first five years. The Group assumed a zero growth rate beyond five years. The interest rate used to discount the net cash flows from operations is the weighted average cost of capital (WACC) of 14.97% for BLCI as of December 31, 2021 and 2020. The carrying amount of goodwill related to the investment in BLCI amounted to ₱32.5 million as of December 31, 2021 and 2020 (see Note 13).

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

The carrying amount of the right-of-use assets as of December 31, 2021 and 2020 amounted to ₱4.6 million and ₱9.1 million, respectively. Lease liabilities as of December 31, 2021 and 2020 amounted to ₱2.7 million and ₱6.2 million, respectively (see Notes 11 and 30).

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

Fair value of financial assets as of December 31, 2021 and 2020 amounted to ₱3,554.3 million and ₱4,398.9 million, respectively (see Note 28). Fair value of financial liabilities as of December 31, 2021 and 2020 amounted to ₱670.0 million and ₱623.7 million, respectively (see Note 28).



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	P3,651,136	(P912,784)	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	P1.53 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	P32,692,362	P2,302,234	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
SII	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.

