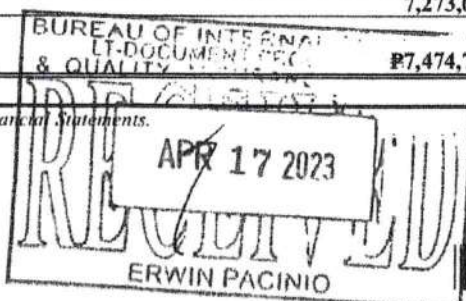


**SPC POWER CORPORATION**  
**PARENT COMPANY STATEMENTS OF FINANCIAL POSITION**

	December 31	
	2022	2021
<b>ASSETS</b>		
<b>Current Assets</b>		
Cash and cash equivalents (Note 6)	P3,587,754,678	P2,624,510,564
Trade and other receivables (Note 7)	125,455,760	199,048,237
Inventories (Note 8)	131,180,641	80,187,197
Prepayments and other current assets (Note 9)	27,334,209	19,919,705
Total Current Assets	3,871,725,288	2,923,665,703
<b>Noncurrent Assets</b>		
Investments in associates (Note 10)	2,852,465,368	2,852,465,368
Investments in subsidiaries (Note 11)	341,177,829	341,177,829
Property, plant and equipment (Note 12)	373,891,495	399,897,935
Other noncurrent assets (Notes 13 and 25)	35,519,149	33,934,498
Total Noncurrent Assets	3,603,053,841	3,627,475,630
<b>TOTAL ASSETS</b>	<b>P7,474,779,129</b>	<b>P6,551,141,333</b>
<b>LIABILITIES AND EQUITY</b>		
<b>Current Liabilities</b>		
Trade and other payables (Note 14)	P156,070,448	P158,822,953
Income tax payable	3,718,858	6,878,630
Current portion of lease liabilities (Note 23)	1,828,196	2,662,317
Total Current Liabilities	161,617,502	168,363,900
<b>Noncurrent Liability</b>		
Pension liability (Note 21)	13,640,838	8,490,874
Deferred income tax liability (Note 20)	16,923,976	-
Lease liabilities - net of current portion (Note 23)	9,559,496	-
Total Noncurrent Liabilities	40,124,310	8,490,874
Total Liabilities	201,741,812	176,854,774
<b>Equity</b>		
Capital stock - P1 par value (Note 15)		
Authorized - 2,000,000,000 shares		
Issued - 1,569,491,900 shares	1,569,491,900	1,569,491,900
Additional paid-in capital	86,810,752	86,810,752
Retained earnings (Note 15):		
Appropriated for future expansion projects	1,800,000,000	1,800,000,000
Unappropriated	3,941,964,875	3,044,861,443
Other comprehensive income:		
Remeasurement of retirement benefits obligations (Note 21)	(5,572,036)	(2,219,362)
Net unrealized valuation gains on financial asset at fair value through other comprehensive income (FVOCI) (Note 13)	11,350,000	6,350,000
Treasury stock at cost - 72,940,097 shares (Note 15)	(131,008,174)	(131,008,174)
Total Equity	7,273,037,317	6,374,286,559
<b>TOTAL LIABILITIES AND EQUITY</b>	<b>P7,474,779,129</b>	<b>P6,551,141,333</b>

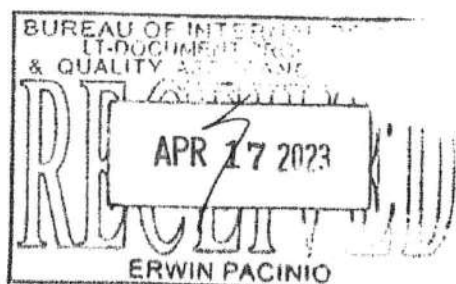
See accompanying Notes to Parent Company Financial Statements.



**SPC POWER CORPORATION**  
**PARENT COMPANY STATEMENTS OF COMPREHENSIVE INCOME**

	Years Ended December 31		
	2022	2021	2020
<b>REVENUE</b>			
Operating fees (Note 25)	P720,908,368	P519,107,948	P330,169,979
<b>COST OF SERVICES</b>			
Plant operations (Notes 16 and 25)	(629,973,619)	(353,744,937)	(179,619,355)
<b>GROSS PROFIT</b>	<b>90,934,749</b>	<b>165,363,011</b>	<b>150,550,624</b>
<b>GENERAL AND ADMINISTRATIVE EXPENSES</b> (Note 17)	<b>(195,776,658)</b>	<b>(147,217,973)</b>	<b>(135,997,743)</b>
<b>OTHER INCOME (CHARGES)</b>			
Dividend income (Notes 5, 10 and 11)	1,209,880,065	1,505,777,276	1,720,729,579
Service income (Note 5)	—	40,002,385	120,007,156
Interest income (Note 6)	26,934,920	31,621,618	47,362,989
Interest expense (Notes 23 and 24)	(373,979)	(112,059)	(370,931)
Foreign exchange gain (loss)	93,624,980	7,515,308	(7,004,273)
Others - net (Note 5)	6,159,117	126,220	997,245
	<b>1,336,225,103</b>	<b>1,584,930,748</b>	<b>1,881,721,765</b>
<b>INCOME BEFORE INCOME TAX</b>	<b>1,231,383,194</b>	<b>1,603,075,786</b>	<b>1,896,274,646</b>
<b>PROVISION FOR CURRENT INCOME TAX</b> (Note 20)	<b>34,969,401</b>	<b>27,681,501</b>	<b>48,877,047</b>
<b>NET INCOME</b>	<b>1,196,413,793</b>	<b>1,575,394,285</b>	<b>1,847,397,599</b>
<b>OTHER COMPREHENSIVE INCOME</b>			
<i>Items that will not be reclassified to profit or loss:</i>			
Remeasurement gain (loss) on retirement benefits obligations, net of tax effect (Note 21)	(3,352,674)	(5,142,195)	1,967,989
Unrealized valuation gain on financial asset at FVOCI (Note 13)	5,000,000	600,000	100,000
	<b>1,647,326</b>	<b>(4,542,195)</b>	<b>2,067,989</b>
<b>TOTAL COMPREHENSIVE INCOME</b>	<b>P1,198,061,119</b>	<b>P1,570,852,090</b>	<b>P1,849,465,588</b>
<b>EARNINGS PER SHARE (BASIC/DILUTED)</b> (Note 15)	<b>P0.80</b>	<b>P1.05</b>	<b>P1.23</b>

See accompanying Notes to Parent Company Financial Statements.





# SPC POWER CORPORATION

## PARENT COMPANY STATEMENTS OF CHANGES IN EQUITY

FOR THE YEARS ENDED DECEMBER 31, 2022, 2021 AND 2020

	Other Comprehensive Income (Loss)				
	Retained Earnings (Note 15)		Remeasurement of Retirement Benefits Obligations (Note 21)		Net Unrealized Valuation Gains on Financial Assets at FVOCI (Note 13)
	Capital Stock (Note 15)	Additional Paid-in Capital	Appropriated	Unappropriated	Treasury Stock at Cost (Note 15)
At January 1, 2022					
Total comprehensive income					
Cash dividends (Note 16)					
At December 31, 2022	P1,569,491,900	P86,810,752	P1,800,000,000	P3,044,861,443	P6,374,286,559
At January 1, 2021					
Total comprehensive income					
Cash dividends (Note 16)					
At December 31, 2021	P1,569,491,900	P86,810,752	P1,800,000,000	P3,044,861,443	P6,374,286,559
At January 1, 2020					
Total comprehensive income					
Cash dividends (Note 16)					
At December 31, 2020	P1,569,491,900	P86,810,752	P1,800,000,000	P3,044,861,443	P6,374,286,559
At January 1, 2020					
Reversal of appropriation (Note 15)					
Cash dividends (Note 15)					
At December 31, 2020	P1,569,491,900	P86,810,752	P1,800,000,000	P3,044,861,443	P6,374,286,559

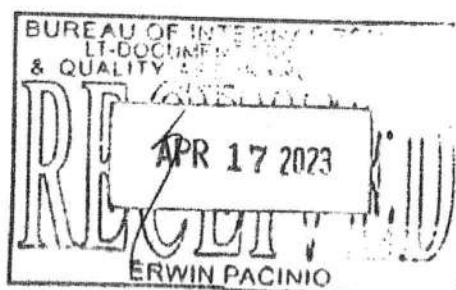
See accompanying Notes to Parent Company Financial Statements.



**SPC POWER CORPORATION**  
**PARENT COMPANY STATEMENTS OF CASH FLOWS**

	Years Ended December 31		
	2022	2021	2020
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Income before income tax	₱1,231,383,194	₱1,603,075,786	₱1,896,274,646
Adjustments for:			
Dividend income (Notes 5, 10 and 11)	(1,209,880,065)	(1,505,777,276)	(1,720,729,579)
Unrealized foreign exchange gain	(68,056,643)	(1,474,738)	(396,648)
Depreciation and amortization (Notes 12 and 19)	40,289,703	41,506,177	40,720,148
Interest income (Note 6)	(26,934,920)	(31,621,618)	(47,362,989)
Net changes in pension liability (Note 21)	1,797,290	2,011,879	2,228,479
Interest expense (Notes 23 and 24)	373,979	112,059	370,931
Gain on disposal of assets	-	(71,429)	(107,143)
Operating income before working capital changes	(31,027,462)	107,760,840	170,997,845
Decrease (increase) in:			
Trade and other receivables	73,592,477	(38,435,651)	(520,729)
Inventories	(50,993,444)	(9,863,220)	(12,295,365)
Prepayments and other current assets	(7,414,504)	(6,153,984)	24,794,504
Increase (decrease) in trade and other payables	(2,752,505)	73,664,894	(8,455,099)
Net cash generated from operations	(18,595,438)	126,972,879	174,521,156
Income taxes paid	(21,205,197)	(32,786,761)	(51,810,215)
Interest received	26,934,920	31,621,618	47,362,989
Interest paid (Notes 23 and 24)	(373,979)	(112,059)	(370,931)
Net cash flows from (used in) operating activities	(13,239,694)	125,695,677	169,702,999
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Cash dividends received (Notes 5, 10 and 11)	1,209,880,065	1,421,288,616	1,720,729,579
Cash inflows (outflows) arising from advances to suppliers and contractors (Notes 13 and 25)	2,807,098	(10,686,707)	5,992,020
Additions to property, plant and equipment (Note 12)	(1,422,842)	(22,140,036)	(9,284,043)
Proceeds from disposal of property and equipment (Note 12)	-	71,429	107,143
Net cash flows from investing activities	1,211,264,321	1,388,533,302	1,717,544,699

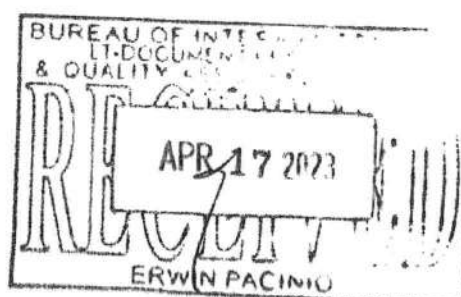
(Forward)





	Years Ended December 31		
	2022	2021	2020
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
Cash dividends paid (Note 15)	(P299,310,361)	(P2,319,655,295)	(P1,197,241,442)
Payment of principal portion of lease liabilities (Note 24)	(3,526,795)	(1,765,439)	(4,074,526)
Cash flows used in financing activities	(302,837,156)	(2,321,420,734)	(1,201,315,968)
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	<b>895,187,471</b>	<b>(807,191,755)</b>	<b>685,931,730</b>
<b>EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS</b>	<b>68,056,643</b>	<b>1,474,738</b>	<b>396,648</b>
<b>CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR</b>	<b>2,624,510,564</b>	<b>3,430,227,581</b>	<b>2,743,899,203</b>
<b>CASH AND CASH EQUIVALENTS AT END OF YEAR (Note 6)</b>	<b>P3,587,754,678</b>	<b>P2,624,510,564</b>	<b>P3,430,227,581</b>

See accompanying Notes to Parent Company Financial Statements.



## **SPC POWER CORPORATION**

### **NOTES TO PARENT COMPANY FINANCIAL STATEMENTS**

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#### **1. Corporate Information**

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

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

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

In resolutions dated September 28, 2001, the Board of Directors (BOD) and Stockholders amended the primary purposes for which the Parent Company is formed. Together with its subsidiaries and associates, it is engaged in various business activities within the Philippines that include, among others, the development, construction, rehabilitation, maintenance, management and operation of power generating plants, electricity distribution and related facilities in accordance with existing laws.

On April 2, 2002, the Parent Company's common shares were listed in the Philippine Stock Exchange (PSE) with ticker symbol: SPC (see Note 15).

On September 9, 2016, the Parent Company's BOD further amended the Parent Company's Articles of Incorporation in order to engage in the business of selling, brokering, marketing, or aggregating electricity to the end users. The amendments were subsequently approved and confirmed by written assent of the stockholders representing at least two-thirds of the outstanding capital stock of the Parent Company. On January 4, 2017, the SEC approved such amendment.

On April 15, 2016, SPC Island Power Corporation (SIPC), a wholly owned subsidiary of the Parent Company, submitted the highest offer to Power Sector Assets and Liabilities Management Corporation (PSALM) in the negotiated sale of the 32-MW Power Barge (PB) 104. On June 16, 2016, the Parent Company executed an Amendment, Accession and Assumption Agreement with PSALM and SIPC. Under the agreement, SIPC assigned all its rights and obligations as Buyer of PB 104 to the Parent Company after PSALM gave its consent pursuant to the provisions of the Asset Purchase Agreement (APA) between SIPC and PSALM. On June 30, 2016, PSALM turned over the PB 104 to the Parent Company.

On July 29, 2021 the Parent Company's Board of Directors approved to amend the Company's Articles of Incorporation in order to engage in the business of renewable energy including the exploration, development and utilization of renewable energy resources, such as but not limited to biomass, solar, wind, hydro, geothermal, ocean energy sources or hybrid systems. The amendments were subsequently approved and confirmed by written assent of the stockholders representing at least 2/3 of the outstanding capital stock of the Parent Company. SEC approved the amendment on June 9, 2022.





On June 19, 2022, the SEC approved the change in the Parent Company's principal office address from 7th Floor, Cebu Holdings Center, Archbishop Reyes Avenue, Cebu Business Park, Cebu City to 7th FL BDO Towers Paseo, 8741, Paseo de Roxas, Makati City, 1209.

The financial statements of the Parent Company were authorized for issue by the BOD on March 30, 2023.

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

Basis of Preparation

The Parent Company's 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 Parent Company's functional currency. All amounts are rounded to the nearest Peso except as otherwise indicated.

The Parent Company also prepares and issues consolidated financial statements for the same period as the separate financial statements presented in accordance with Philippine Financial Reporting Standards (PFRSs). These may be obtained at 7<sup>th</sup> Floor, Cebu Holdings Center, Archbishop Reyes Avenue, Cebu Business Park, Cebu City.

Statement of Compliance

The Parent Company's financial statements are presented in accordance with the PFRSs.

Changes in Accounting Policies and Disclosures

The accounting policies adopted are consistent with those of the previous financial year, except for the following new and revised standards and Philippine Interpretations which were applied starting January 1, 2021. The Parent Company has not early adopted any standard, interpretation or amendment that has been issued but is not yet effective. Unless otherwise indicated, the adoption did not have any significant impact on the financial statements of the Parent Company.

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

New Standards and Interpretation Issued and Effective after December 31, 2021

The Parent Company will adopt the pronouncements enumerated below when these become effective. Except as otherwise indicated, the Parent Company does not expect the future adoption of the said pronouncements to have significant impact on its financial statements.

*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 Parent Company is currently assessing the impact of the amendment in light of the subsequent events discussed in Note 25.

- 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 Parent Company.

- 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 Parent Company 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 Parent Company.

- *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 Parent Company.

- 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 Parent Company 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 Parent Company.

- 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 Parent Company 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 Parent Company.

▪ 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 Parent Company.

▪ 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 Parent Company 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 Parent Company 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 Parent Company.

*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 Parent Company.

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### 3. Summary of Significant Accounting Policies

#### Cash and Cash Equivalents

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

#### Financial Instruments - Classification and Measurement

*Classification of Financial Assets.* Financial assets are classified in their entirety based on the contractual cash flows characteristics of the financial assets and the Parent Company's business model for managing the financial assets. The Parent Company 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 FVOCI, where cumulative gains or losses previously recognized are reclassified to profit or loss;
- 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 Parent Company 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 Parent Company 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 Parent Company'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 Parent Company's business model does not depend on management's intentions for an individual instrument.



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

As at December 31, 2021 and 2020, the Parent Company has financial assets at amortized cost consisting of cash and cash equivalents and trade and other receivables (see Notes 5, 6 and 7).

*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 statement of income as incurred. Subsequently, they are measured at fair value and any gains or losses are recognized in the statement of income.

Additionally, even if the asset meets the amortized cost or the FVOCI criteria, the Parent Company 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 Parent Company, 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 Parent Company 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 Parent Company 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 Parent Company 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 Parent Company'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 Parent Company; and
- the amount of the dividend can be measured reliably.

As at December 31, 2022 and 2021, the Parent Company's financial assets at FVOCI includes proprietary golf club shares recorded as part of "Other noncurrent assets" (see Notes 13 and 22).

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

- Financial liabilities measured at FVPL;
- Financial liabilities that arise when a transfer of a financial asset does not qualify for derecognition or when the Parent Company 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 Parent Company'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 Parent Company's financial liabilities include trade and other payables (see Notes 5 and 14).



#### Impairment of Financial Assets

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

#### Offsetting Financial Instruments

Financial assets and financial liabilities are offset and the net amount reported in the statement of financial position if, and only if, the Parent Company 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 Parent Company 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 Parent Company 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 Parent Company 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 Parent Company has transferred its rights to receive cash flows from the asset and either (a) has transferred substantially all the risks and rewards of the asset, or (b) 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 Parent Company.

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 Parent Company 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 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 parent company statements of financial position on a recurring basis, the Parent Company 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 Parent Company 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.

#### Inventories

Inventories, which consist of spare parts, fuel and consumables used in the operation, repairs and maintenance of the property, plant and equipment, are stated at the lower of cost and net realizable value (NRV). Cost is determined using the moving 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 and Subsidiaries

The Parent Company's investments in associates and subsidiaries are accounted for at cost less any impairment loss, in accordance with PAS 27, *Separate Financial Statements*. An associate is an entity in which the Parent Company has significant influence and which is neither a subsidiary nor a joint venture. A subsidiary is an entity that is controlled by the Parent Company.

#### Property, Plant and Equipment

Property, plant and equipment are stated at cost, excluding the costs of day-to-day servicing, less accumulated depreciation and any allowance for impairment losses.

The initial cost of property, plant and equipment comprises its purchase price, including import duties and non-refundable purchase taxes, after deducting trade discounts and rebates 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 and borrowing costs for long term construction projects 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 statements 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 lease term (for right-of-use assets), whichever is shorter, as follows:

Category	No. of Years
Buildings, plant machinery and equipment	3-15
Motor vehicles	5
Furniture and office equipment	5
Partitions and air conditioners	5
Right-of-use assets	2-5

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.

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 to current operations.

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

It is the Parent Company's policy to classify right-of-use assets as part of property and equipment. The Parent Company 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 Parent Company 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

#### Impairment of Nonfinancial Assets

The Parent Company 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 Parent Company 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 group 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 parent company 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 accumulated depreciation and amortization, had no impairment loss been recognized for the asset in prior years. Such reversal is recognized in the parent company—statement of comprehensive income unless the asset is carried at revalued amount, in which case the reversal is treated as a revaluation increase. 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 Shares.* These own equity instruments which are reacquired are recognized at cost and deducted from equity. No gain or loss is recognized in the parent company statement of comprehensive income on the purchase, sale, issue or cancellation of the Parent Company's own equity instruments. Any difference between the carrying amount and the consideration, if reissued, is recognized in additional paid-in capital.

*Retained Earnings.* Retained earnings include 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.

#### 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 Parent Company expects to be entitled in exchange for those goods or services, excluding amounts collected on behalf of third parties.

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

*Operating Fees.* Revenue consists of: (i) fees from National Grid Corporation of the Philippines for rendering ancillary services; and (ii) energy fees for electricity sold to the Wholesale Electricity Spot Market (WESM).



The Parent Company 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. In contracts with fixed capacity payments which are determined at contract inception, the fixed capacity payments for the entire contract period is determined at day 1 and is recognized over time.

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

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

*Dividend Income.* Dividend income from investments in associates and subsidiaries is recognized when the Parent Company's right to receive payment is established.

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

#### Cost and Expense Recognition

Cost and expenses are recognized in the parent company statement of comprehensive income when incurred.

#### Leases

The Parent Company 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.

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

#### Pension Expense

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

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

Defined benefit costs comprise the following:

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

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

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

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

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



### Income Tax

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

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

### Related Party Transactions

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

### Provisions

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

### Foreign Currency-Denominated Transactions

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

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

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

### Earnings per Share

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





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

#### Segment Reporting

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

#### Contingencies

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

#### Events After the Reporting Period

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

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

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

##### Judgments

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

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

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



Significant judgments in revenue recognition are as follows:

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

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

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

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

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

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

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





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

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

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

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

#### Estimates and Assumptions

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

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

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



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

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

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

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

An increase in the Parent Company's allowance for expected credit losses of trade and other receivables will increase the Parent Company's recorded expenses and decrease current assets. As of December 31, 2022 and 2021, allowance for expected credit losses amounted to ₱4.6 million and ₱6.9 million, respectively (see Notes 5 and 7). These receivables, net of allowance for expected credit losses, amounted to ₱125.5 million and ₱199.0 million as of December 31, 2022 and 2021, respectively (see Note 7).

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

No allowance for losses is recorded as of December 31, 2022 and 2021 (see Note 8). The carrying value of the inventories amounted to ₱131.2 million and ₱80.2 million as of December 31, 2022 and 2021, respectively (see Note 8).

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





The Parent Company recognized depreciation expense amounting to ₱39.7 million, ₱40.9 million and ₱40.1 million in 2022, 2021 and 2020, respectively (see Note 19). As of December 31, 2022 and 2021, the aggregate net book values of property, plant and equipment subjected to depreciation amounted to ₱373.9 million and ₱399.9 million, respectively (see Note 12).

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

The Parent Company recognized impairment loss amounting to nil in 2022, 2021 and 2020 (see Note 17). As of December 31, 2022 and 2021, the aggregate net book values of property, plant and equipment amounted to ₱373.9 million and ₱399.9 million, respectively (see Note 12).

*Estimating Impairment of Investments in Associates and Investments in Subsidiaries.* The Parent Company assesses whether there are any indicators of impairment on investments in associates and subsidiaries at each reporting date. Investments in associates and subsidiaries are tested for impairment whenever events or changes in circumstances indicate that the carrying amount of the asset may not be recoverable. The recoverable amount of investments in associates and investments subsidiaries is based on fair value less cost to sell. Fair value less cost to sell is determined to be the amount obtainable from the sale of the underlying net assets of the associate or subsidiary. The carrying amounts of investments in associates as of December 31, 2022 and 2021 amounted to ₱2,852.5 million (see Note 10). The carrying amounts of investments in subsidiaries as of December 31, 2022 and 2021 amounted to ₱341.2 million (see Note 11). Based on management's assessment, the Parent Company's investments in associates and investments in subsidiaries are fairly stated, thus no impairment loss was recognized in 2022, 2021 and 2020.

*Estimating Realizability of Deferred Income Tax Assets.* The Parent Company reviews the carrying amounts of deferred income tax assets at each reporting date and reduces deferred income tax assets to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax assets to be utilized. However, there is no assurance that the Parent Company will utilize all or part of the deferred income tax assets. The Parent Company's assessment on the recognition of deferred income tax assets on deductible temporary differences is based upon the likely timing and level of future taxable profits determined from the tax planning strategies of the Parent Company. The Parent Company has no deferred income tax assets as of December 31, 2022 and 2021 (see Note 20).

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

Fair value of financial assets as of December 31, 2022 and 2021 amounted to ₱3,726.2 million and ₱2,831.6 million, respectively. Fair value of financial liabilities as of December 31, 2022 and 2021 amounted to ₱130.9 million and ₱116.1 million, respectively.



## 5. Related Party Transactions

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

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

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

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

- Management services rendered to SIPC where management fee earned by the Parent Company amounted to nil, ₱0.1 million and ₱0.4 million in 2022, 2021 and 2020, respectively, is included as part of "Others - net" in the parent company statements of comprehensive income.
- Extension of noninterest-bearing advances to SIPC for working capital requirements and receivables relating to the purchase of inventories made by the Parent Company on behalf of SIPC. Outstanding receivables related to these transactions amounted to nil as of December 31, 2022 and 2021, respectively.
- Extension of noninterest-bearing advances to Bohol Light Company, Inc. (BLCI) for working capital requirements. Outstanding advances amounted to ₱0.5 million and ₱0.2 million as of December 31, 2022 and 2021.
- Cash dividends earned from subsidiaries, SIPC, BLCI, SPC Electric Company, Inc.(SECI), SPC Malaya Power Corporation (SMPC), and SPC Light Company, Inc. (SLCI) amounted to ₱205.2 million, ₱359.0 million and ₱339.7 million in 2022, 2021 and 2020, respectively (see Note 11).
- Rendering of management and other services to Mactan Electric Company, Inc. (MECO), an associate, amounting to nil, ₱40.0 million and ₱120.0 million in 2022, 2021 and 2020, are recorded as "Service income" in the parent company statements of comprehensive income.
- Extension of short-term, noninterest-bearing advances to KEPCO SPC Power Corporation (KEPCO SPC), an associate, for the development of the 2x100 MW Circulating Fluidized Bed Combustion (CFBC) Boiler Coal-Fired Power Plant in Naga, Cebu. Outstanding advances to KEPCO SPC amounted to ₱0.8 million and ₱0.7 million as of December 31, 2022 and 2021, respectively.
- Cash dividends received from associates (KEPCO SPC and MECO) amounted to ₱1,004.7 million, ₱1,146.8 million and ₱1,381.0 million in 2022, 2021 and 2020, respectively (see Note 10).
- Rentals on office spaces from SPEC Properties, Inc. (SPEC) and SII Properties Development Corporation (SPDC) with lease terms ranging from 2-3 years amounted to ₱4.4 million in 2022 and 2021 and ₱4.3 million in 2020, respectively. Upon adoption of PFRS 16, lease liabilities were recognized on the unpaid rentals until the end of lease term for these office spaces.





- Extension/availment of noninterest-bearing advances to/from related parties for working capital requirements.

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

2022				
Category	Transaction	Outstanding Balance - Receivable (Payable)	Terms	Conditions
<b>Subsidiaries</b>				
Extension (availment) of advances:				
SIPC**	P903,532	P328,523	60-day;	Unsecured;
			Noninterest-bearing	No impairment
SIPC***	1,672,358	(189,179)	60-day;	Unsecured
			Noninterest-bearing	
BLCI**	316,170	468,893	60-day;	Unsecured;
			Noninterest-bearing	No impairment
BLCI***	—	(129,251)	60-day;	Unsecured
			Noninterest-bearing	
SMPC**	19,588	19,588	60-day;	Unsecured;
			Noninterest-bearing	No impairment
SECI**	77,952	12,869	60-day;	Unsecured;
			Noninterest-bearing	No impairment
SLCI**	15,705	12,289	60-day;	Unsecured;
			Noninterest-bearing	No impairment
CNPC**	40,189	217,151	60-day;	Unsecured;
			Noninterest-bearing	No impairment
Dividend income (see Note 11):				
SIPC	189,999,981	—	Due and demandable	Unsecured
BLCI	4,488,749	4,488,749	Due and demandable	Unsecured;
				No impairment
SECI	5,674,139	—	Due and demandable	Unsecured;
				No impairment
SLCI	5,043,679	—	Due and demandable	Unsecured;
				No impairment
<b>Associates</b>				
Extension (availment) of advances:				
KEPCO SPC**	—	763,112	60-day;	Unsecured;
			Noninterest-bearing	No impairment
MECO	—	939	60-day;	Unsecured;
			Noninterest-bearing	No impairment
Dividend income (see Note 10):				
KEPCO SPC	964,673,562	—	Due and demandable	Unsecured
MECO	39,999,956	—	Due and demandable	Unsecured;
				No impairment
<b>Affiliates (Companies Under Common Ownership)</b>				
Lease of office space:****				
SPEC	3,651,136	—	30-day;	Unsecured
			Noninterest-bearing;	
Lease of office space:****				
SPDC	778,084	—	30-day;	Unsecured
			Noninterest-bearing;	
			3% annual escalation	
<b>Affiliates (Companies Under Common Ownership)</b>				
Extension (availment) of advances:				
Bohol Water Utilities, Inc. (BWUI)**	45,638	107,043	60-day;	Unsecured;
			Noninterest-bearing	No impairment
<b>Affiliates (Companies Under Common Ownership)</b>				
Extension (availment) of advances:				
SPDC**	P90,729	P507,410	60-day;	Unsecured;
			Noninterest-bearing	No impairment

(Forward)



2022				
Category	Transaction	Outstanding Balance - Receivable (Payable)	Terms	Conditions
Extension (availability) of advances:				
SPDC***			60-day; Noninterest-bearing	Unsecured
Salcon International, Inc. (SII)**	42,199	181,935	60-day; Noninterest-bearing	Unsecured; No impairment
Salcon Philippines, Inc. (SPI)**	44,041	171,516	60-day; Noninterest-bearing	Unsecured; No impairment
SIPC Water Resources, Inc. (SWRI)**		223,586	60-day; Noninterest-bearing	Unsecured; No impairment
Western Panay Hydropower Corp. (WPHC)**	108,565	235,143	60-day; Noninterest-bearing	Unsecured; No impairment
SPEC**	101,810	304,756	60-day; Noninterest-bearing	Unsecured; No impairment
KV Holdings, Inc.**	30,109	7,789	60-day; Noninterest-bearing	Unsecured; No impairment
KEPCO Philippines Holdings, Inc.***		(497,043)	60-day; Noninterest-bearing	Unsecured; No impairment
Officers and employees*	20,680,899	21,606,636	60-day; Noninterest-bearing	Unsecured; No impairment
* Under "Trade and other receivables"				
** Under "Due from related parties"				
*** Under "Due to related parties"				
**** Under "Lease liabilities"				
2021				
Category	Transaction	Outstanding Balance - Receivable (Payable)	Terms	Conditions
Subsidiaries				
Management services:				
SIPC*	P102,679	P-	60-day; Noninterest-bearing	Unsecured
Extension (availability) of advances:				
SIPC**	324,572	138,849	60-day; Noninterest-bearing	Unsecured; No impairment
SIPC***	69,090	(22,606)	60-day; Noninterest-bearing	Unsecured; No impairment
BLCI**	168,856	203,996	60-day; Noninterest-bearing	Unsecured; No impairment
BLCI***		(129,251)	60-day; Noninterest-bearing	Unsecured; No impairment
SMPC**	8,014	26,183	60-day; Noninterest-bearing	Unsecured; No impairment
SECI**	9,864	15,922	60-day; Noninterest-bearing	Unsecured; No impairment
SLCI**	9,164	16,112	60-day; Noninterest-bearing	Unsecured; No impairment
CNPC**	17,807	176,962	60-day; Noninterest-bearing	Unsecured; No impairment
Dividend income (see Note 11):				
SIPC	349,999,965	-	Due and demandable	Unsecured
BLCI	8,977,497	4,488,749	Due and demandable	Unsecured; No impairment
Associates				
Management services:				
MECO	40,002,385		60-day; Noninterest-bearing	Unsecured
Extension (availability) of advances:				
KEPCO SPC**		763,112	60-day; Noninterest-bearing	Unsecured; No impairment
MECO	939	939	60-day; Noninterest-bearing	Unsecured; No impairment
(Forward)				





2021				
Category	Transaction	Outstanding Balance - Receivable (Payable)	Terms	Conditions
<b>Associates</b>				
Dividend income (see Note 10):				
KEPCO SPC	P1,026,799,946	P-	Due and demandable	Unsecured
MECO	119,999,867	79,999,911	Due and demandable	Unsecured; No impairment
<b>Affiliates (Companies Under Common Ownership)</b>				
Lease of office space: ****				
SPEC	3,651,136	(2,738,352)	30-day; Noninterest-bearing;	Unsecured
Lease of office space:****				
SPDC	765,946	(572,066)	30-day; Noninterest-bearing; 3% annual escalation	Unsecured
Extension (availment) of advances:				
Bohol Water Utilities, Inc. (BWUI)**	146,762	212,695	60-day; Noninterest-bearing	Unsecured; No impairment
SPDC**	94,042	416,681	60-day; Noninterest-bearing	Unsecured; No impairment
SPDC ***	294,551	(509,711)	60-day; Noninterest-bearing	Unsecured
Salcon International, Inc. (SII)**	51,184	139,736	60-day; Noninterest-bearing	Unsecured; No impairment
Salcon Philippines, Inc. (SPI)**	45,500	127,475	60-day; Noninterest-bearing	Unsecured; No impairment
SIPC Water Resources, Inc. (SWRI)**	30,041	223,586	60-day; Noninterest-bearing	Unsecured; No impairment
Western Panay Hydropower Corp. (WPHC)**	29,041	126,578	60-day; Noninterest-bearing	Unsecured; No impairment
SPEC**	70,197	202,945	60-day; Noninterest-bearing	Unsecured; No impairment
KV Holdings, Inc.**	8,564	26,111	60-day; Noninterest-bearing	Unsecured; No impairment
KEPCO Philippines Holdings, Inc. ***	-	(497,043)	60-day; Noninterest-bearing	Unsecured
Officers and employees*	2,767,923	3,735,784	60-day; Noninterest-bearing	Unsecured; No impairment

\* Under "Trade and other receivables"

\*\* Under "Due from related parties"

\*\*\* Under "Due to related parties"

\*\*\*\* Under "Lease liabilities"

2020				
Category	Transaction	Outstanding Balance - Receivable (Payable)	Terms	Conditions
<b>Subsidiaries</b>				
Management services:				
SIPC*	P410,714	P-	60-day; Noninterest-bearing	Unsecured
Sale of LBGT (see Note 7):				
SIPC*	-	6,192,074	Due and demandable	Unsecured; No impairment
Extension (availment) of advances:				
SIPC**	1,084,240	125,766	60-day; Noninterest-bearing	Unsecured; No impairment
SIPC***	1,985,387	(1,584,933)	60-day; Noninterest-bearing	Unsecured
BLCI**	539,496	594,999	60-day; Noninterest-bearing	Unsecured; No impairment
BLCI***	13,750	(129,251)	60-day; Noninterest-bearing	Unsecured
SMPC**	2,013	18,168	60-day; Noninterest-bearing	Unsecured; No impairment
SECI**	25	6,057	60-day; Noninterest-bearing	Unsecured; No impairment

(Forward)



2020				
Category	Transaction	Outstanding Balance - Receivable (Payable)	Terms	Conditions
Extension (avaiement) of advances:				
SLCI**	P915	P6,947	60-day; Noninterest-bearing	Unsecured; No impairment
CNPC**	17,403	159,155	60-day; Noninterest-bearing	Unsecured; No impairment
Dividend income (see Note 11):				
SIPC	299,999,940		Due and demandable	Unsecured
BLCI	22,942,495		Due and demandable	Unsecured
Dividend income (see Note 11):				
SECI	7,565,518		Due and demandable	Unsecured
SLCI	9,204,715		Due and demandable	Unsecured
<b>Associates</b>				
Management services:				
MECO	120,007,156		60-day; Noninterest-bearing	Unsecured
Extension (avaiement) of advances:				
KEPCO SPC**		719,579	60-day; Noninterest-bearing	Unsecured; No impairment
MECO	990		60-day; Noninterest-bearing	Unsecured
Dividend income (see Note 10):				
KEPCO SPC	1,357,016,938		Due and demandable	Unsecured
MECO	23,999,973		Due and demandable	Unsecured
<b>Affiliates (Companies Under Common Ownership)</b>				
Lease of office space: ****				
SPEC	3,651,136	(912,784)	30-day; Noninterest-bearing;	Unsecured
SPDC	691,317	(172,829)	30-day; Noninterest- bearing; 3% annual escalation	Unsecured
Extension (avaiement) of advances:				
Bohol Water Utilities, Inc. (BWUI)**	160,358	231,929	60-day; Noninterest-bearing	Unsecured; No impairment
SPDC**	70,659	322,638	60-day; Noninterest-bearing	Unsecured; No impairment
SPDC***	215,160	(215,160)	60-day; Noninterest-bearing	Unsecured
Salcon International, Inc. (SII)**	37,400	88,552	60-day; Noninterest-bearing	Unsecured; No impairment
Salcon Philippines, Inc. (SPI)**	37,025	81,975	60-day; Noninterest-bearing	Unsecured; No impairment
SIPC Water Resources, Inc. (SWRI)**	-	193,545	60-day; Noninterest-bearing	Unsecured; No impairment
Western Panay Hydropower Corp. (WPHC)**	-	97,537	60-day; Noninterest-bearing	Unsecured; No impairment
Pure and Pam, Inc.**	-	75,000	60-day; Noninterest-bearing	Unsecured; No impairment
SPEC**	65,895	132,749	60-day; Noninterest-bearing	Unsecured; No impairment
KV Holdings, Inc.**	13,615	17,547	60-day; Noninterest-bearing	Unsecured; No impairment
KEPCO Philippines Holdings, Inc.***	-	(497,043)	60-day; Noninterest-bearing	Unsecured
Officers and employees*	5,793,636	5,064,286	60-day; Noninterest-bearing	Unsecured

\* Under "Trade and other receivables"

\*\* Under "Due from related parties"

\*\*\* Under "Due to related parties"

\*\*\*\* Under "Lease liabilities"

These transactions with related parties are generally settled in cash.





**Compensation and Benefits of Key Management Personnel**

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

	2022	2021	2020
Short-term benefits	<b>₱47,107,848</b>	₱40,318,914	₱36,466,676
Post-employment benefits	<b>629,884</b>	512,154	324,926
	<b>₱47,737,732</b>	₱40,831,068	₱36,791,602

**6. Cash and Cash Equivalents**

	2022	2021
Cash on hand and in banks	<b>₱1,375,335,428</b>	₱491,205,512
Short-term investments	<b>2,212,419,250</b>	2,133,305,052
	<b>₱3,587,754,678</b>	₱2,624,510,564

Cash in banks earn interest at the respective bank deposit rates. Short-term investments are made for varying periods of up to three months or less, depending on the immediate cash requirements of the Parent Company, and earn interest at the prevailing short-term investment rates. Total interest income earned amounted to ₱26.9 million, ₱31.6 million and ₱47.4 million in 2022, 2021 and 2020, respectively.

**7. Trade and Other Receivables**

	2022	2021
Receivable from customers:		
Independent Electricity Market Operator of the Philippines Inc. (IEMOP) (net of allowance for impairment of ₱4.6 million and ₱6.9 million in 2022 and 2021, respectively)	<b>₱53,244,481</b>	₱40,833,549
National Grid Corporation of the Philippines (NGCP)	<b>19,095,712</b>	29,359,540
Advances to officers and employees	<b>25,509,551</b>	3,735,784
Interest receivable	<b>5,589,472</b>	2,487,774
Dividend receivable (see Note 5)	<b>4,488,749</b>	84,488,660
Due from related parties (see Note 5)	<b>3,562,542</b>	2,817,883
Others	<b>13,965,253</b>	35,325,047
	<b>₱125,455,760</b>	₱199,048,237

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

Advances to officers and employees are noninterest-bearing and are subject to liquidation within the next two to twelve months.

Others mainly consist of nontrade receivables from various third parties from sale of sludge materials.



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:

	2022	2021
At January 1	<b>₱6,892,930</b>	<b>₱3,714,038</b>
Provision for impairment losses (see Note 17)	–	3,178,892
Reversal of allowance	<b>(2,293,894)</b>	–
At December 31	<b>₱4,599,036</b>	<b>₱6,892,930</b>

#### 8. Inventories

	2022	2021
On hand		
Fuel	<b>₱62,403,068</b>	<b>₱44,277,372</b>
Materials and supplies	<b>67,242,960</b>	<b>35,562,050</b>
In transit	<b>1,534,613</b>	<b>347,775</b>
	<b>₱131,180,641</b>	<b>₱80,187,197</b>

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

Cost of inventories used in operations recognized as part of “Cost of services” amounted to ₱553.9 million, ₱283.1 million and ₱114.0 million in 2022, 2021 and 2020, respectively, in the parent company statements of comprehensive income (see Note 16).

#### 9. Prepayments and Other Current Assets

	2022	2021
Input VAT	<b>₱12,874,824</b>	<b>₱10,749,866</b>
Prepaid insurance	<b>4,428,583</b>	<b>4,353,618</b>
Prepaid income tax – Creditable EWT	<b>5,670,539</b>	–
Refundable deposits	<b>1,140,710</b>	<b>1,396,932</b>
Prepaid rent	<b>2,505,705</b>	<b>2,956,655</b>
Deferred input tax	<b>509,738</b>	<b>462,634</b>
Others	<b>204,110</b>	–
	<b>₱27,334,209</b>	<b>₱19,919,705</b>

Others pertain mostly to advances and refundable deposits.





# 10. Investments in Associates

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

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

## KEPCO SPC

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

	2022	2021
Statements of financial position:		
Current assets	<b>₱3,648,061,247</b>	₱3,295,642,541
Noncurrent assets	<b>8,134,819,864</b>	8,767,282,343
Current liabilities	<b>1,079,104,218</b>	849,143,657
Noncurrent liabilities	<b>169,135,312</b>	170,367,207
Equity	<b>10,534,641,581</b>	11,043,414,020
	<b>2022</b>	<b>2021</b>
Statements of comprehensive income:		
Revenue	<b>₱10,685,730,574</b>	₱7,401,904,359
Gross profit	<b>2,954,375,631</b>	2,789,999,501
Net income	<b>1,895,967,997</b>	1,781,078,822
Other comprehensive income (loss)	<b>6,943,469</b>	3,649,551
Total comprehensive income	<b>1,902,911,466</b>	1,784,728,373

KEPCO SPC declared and paid cash dividends to the Parent Company amounting to ₱964.7 million, ₱1,026.8 million and ₱1,357.0 million in 2022, 2021 and 2020, respectively (see Note 5).

## MECO

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

	2022	2021
Statements of financial position:		
Current assets	<b>₱3,272,422,195</b>	₱3,003,015,589
Noncurrent assets	<b>3,737,587,700</b>	3,643,168,379
Current liabilities	<b>1,056,351,577</b>	1,107,062,700
Noncurrent liabilities	<b>2,506,399,191</b>	2,392,848,077
Equity	<b>3,447,259,127</b>	3,146,273,191
Revaluation increment on property, plant and equipment, and others	<b>401,016,994</b>	426,828,555



	2022	2021
Statements of comprehensive income:		
Revenue	7,524,368,045	5,738,323,076
Gross profit	214,305,875	375,379,894
Net income	383,002,350	310,601,812
Other comprehensive income (loss)	9,379,733	32,020,078
Total comprehensive income	392,382,083	342,621,890
Income after adjustment of depreciation on appraisal increase and others	417,417,764	340,635,858

MECO declared and paid cash dividends to the Parent Company amounting to ₱40.0 million, ₱120.0 million and ₱24.0 million in 2022, 2021 and 2020, respectively (see Note 5).

Based on management's assessment, there were no indicators of impairment. No impairment loss was recognized in 2022, 2021 and 2020.

## 11. Investments in Subsidiaries

Details of the Parent Company's investments in subsidiaries as of December 31, 2022 and 2021 are as follows:

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

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

Declared By	Date of Declaration	Record Date	Amount	
			Gross (in millions)	Per Share
2022				
SIPC	December 12, 2022	December 15, 2022	₱190.0	₱3.80 (common)
BLCI	December 7, 2022	December 22, 2022	11.3	0.15
SLCI	November 16, 2022	November 18, 2022	12.6	0.40
SECI	November 16, 2022	November 18, 2022	14.2	0.75
2021				
SIPC	December 9, 2021	December 15, 2021	₱350.0	₱14.0 (common)
BLCI	June 2, 2021	June 7, 2021	11.3	0.15
	December 1, 2021	December 7, 2021	11.3	0.15
2020				
SIPC	December 2, 2020	December 16, 2020	₱300.0	₱12.0 (common)
BLCI	May 27, 2020	June 1, 2020	20.0	0.27
	November 4, 2020	November 15, 2020	37.5	0.50
SECI	October 2, 2020	October 15, 2020	18.9	1.00
SLCI	October 2, 2020	October 15, 2020	23.0	0.73

No impairment loss was recognized in 2022, 2021 and 2020.





## 12. Property, Plant and Equipment

	2022					
	Buildings, Plant Machinery and Equipment	Motor Vehicles	Furniture and Office Equipment	Partitions and Air Conditioners	Right-of-use Assets (see Note 23)	Total
<b>Cost</b>						
At January 1	₱504,588,541	₱19,211,465	₱12,249,347	₱1,184,635	₱-	₱537,233,988
Additions	944,291	71,341	407,210	-	12,252,170	13,675,012
At December 31	505,532,832	19,282,806	12,656,557	1,184,635	12,252,170	550,909,000
<b>Accumulated Depreciation and Amortization</b>						
At January 1	110,233,272	15,184,926	10,944,113	973,742	-	137,336,053
Depreciation and amortization (see Note 19)	36,243,851	1,590,481	554,424	67,479	1,225,217	39,681,452
At December 31	146,477,123	16,775,407	11,498,537	1,041,221	1,225,217	177,017,505
<b>Net Book Value</b>	₱359,055,709	₱2,507,399	₱1,158,020	₱143,414	₱11,026,953	₱373,891,495

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

The Parent Company has no purchase commitments as of December 31, 2022 and 2021.

## 13. Other Noncurrent Assets

	2022	2021
Project development costs	₱10,916,681	₱13,775,830
Investment in proprietary club shares	13,000,000	8,000,000
Software costs (net of accumulated amortization of ₱4.3 million and ₱3.6 million in 2022 and 2021, respectively) (see Note 19)	1,824,755	2,433,006
Advances to suppliers and contractors	2,789,616	3,132,816
Others	6,988,097	6,592,846
	<b>₱35,519,149</b>	<b>₱33,934,498</b>

Project developments costs pertain to due diligence, legal and consultancy services, and other expenditures incurred in relation to the Company's acquisitions as discussed in Note 25.



In 2022, 2021 and 2020, the Parent Company recognized "Unrealized valuation gain on financial asset at FVOCI" amounting to P5.0 million, P0.6 million and P0.1 million, respectively, in the parent company statements of comprehensive income for its investment in proprietary club shares.

Others mainly pertain to various long-term deposits.

The following table shows the movement of software costs:

	2022	2021
<b>Acquisition Cost</b>	<b>P6,082,514</b>	<b>P6,082,514</b>
<b>Accumulated Amortization</b>		
At January 1	3,649,508	3,041,257
Amortization (see Notes 17 and 19)	608,251	608,251
At December 31	4,257,759	3,649,508
<b>Net Book Value</b>	<b>P1,824,755</b>	<b>P2,433,006</b>

#### 14. Trade and Other Payables

	2022	2021
Trade	P103,823,196	P98,197,245
Nontrade	39,244,035	41,661,751
Accrued expenses:		
Withholding taxes and other statutory liabilities	3,743,053	8,846,948
Terminal leave pay	5,979,755	5,979,755
Accrued rent	632,304	838,678
Others	1,827,033	2,134,365
Due to related parties (see Note 5)	821,072	1,164,211
	<b>P156,070,448</b>	<b>P158,822,953</b>

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

Nontrade payables include accrual for deferred output tax of P25.2 million and P29.5 million as of December 31, 2022 and 2021, respectively, and various accounts with nontrade suppliers and contractors.

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





## 15. Equity

### Capital Stock

There were no changes in the Parent Company's authorized, issued and outstanding common shares as of December 31, 2022 and 2021:

Issued shares	1,569,491,900
Treasury shares	(72,940,097)
Issued and outstanding shares	1,496,551,803

On various dates in 2002 and 2012, the Parent Company registered with SEC its 1,569,491,900 common shares that were offered to the public at an issue price of ₱1.80 per share. Gross proceeds from this issuance of new shares amounted to ₱2.8 billion. As of December 31, 2022, the Parent Company has 707 stockholders including 51 depository participants counted as one stockholder each.

As of December 31, 2022 and 2021, the Parent Company complied with the Minimum Public Ownership requirement of the PSE for listed entities.

### Dividends

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

Date of Declaration	Record Date	Payment Date	Amount	
			Gross (in millions)	Per Share
2022				
May 31, 2022	June 15, 2022	June 24, 2022	₱299.3	₱0.20
2021				
April 7, 2021	April 23, 2021	April 30, 2021	₱598.6	₱0.40
May 28, 2021	June 14, 2021	June 22, 2021	897.9	0.60
December 9, 2021	December 23, 2021	December 27, 2021	823.1	0.55
2020				
May 7, 2020	May 22, 2020	May 29, 2020	598.6	0.40
December 2, 2020	December 21, 2020	December 28, 2020	598.6	0.40

### Retained Earnings

Retained earnings are also restricted for dividend declaration to the extent of the acquisition price of the treasury shares amounting to ₱131.0 million as of December 31, 2022 and 2021.

### Appropriation

On November 25, 2019, the BOD of the Parent Company approved the following: (i) appropriation of retained earnings amounting to ₱1.3 billion for the construction and operation of new generating power plant capacity to supply 39 MW full demand requirements in the mainland of Occidental Mindoro starting May 25, 2022, (ii) appropriation of retained earnings amounting to ₱1.0 billion to invest in SPC Island Power Corporation for the 44.2 MW expansion of Bohol Diesel Power Plant in the years 2020 - 2021, and (iii) confirmation of the 2018 appropriation of retained earnings amounting to ₱500 million for 1 Bohol Power Project that will serve the long-term power requirements of three distribution utilities in Bohol starting December 26, 2023.



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

#### Earnings per Share

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

	2022	2021	2020
Net income	<b>₱1,196,413,793</b>	₱1,575,394,285	₱1,847,397,599
Weighted average number of common shares issued and outstanding	<b>1,496,551,803</b>	1,496,551,803	1,496,551,803
Basic/Diluted earnings per share	<b>₱0.80</b>	₱1.05	₱1.23

There are no potentially dilutive common stocks issued as of December 31, 2022, 2021 and 2020.

#### Capital Management

The Parent Company considers the following as its core economic capital and is not subject to any externally imposed capital requirements. As of December 31, 2022 and 2021, the Parent Company's core capital amounted as follows:

	2022	2021
Capital stock	<b>₱1,569,491,900</b>	₱1,569,491,900
Additional paid-in capital	<b>86,810,752</b>	86,810,752
Retained earnings	<b>5,741,964,875</b>	4,844,861,443
Treasury stock	<b>(131,008,174)</b>	(131,008,174)
	<b>₱7,267,259,353</b>	₱6,370,155,921

#### **16. Plant Operations**

	2022	2021	2020
Fuel, lubricants and chemicals (see Note 8)	<b>₱544,406,930</b>	₱270,659,568	₱101,899,226
Depreciation (see Note 19)	<b>37,469,068</b>	35,131,169	34,031,455
Personnel costs (see Note 18)	<b>21,345,112</b>	20,733,190	18,971,221
Spares, materials and supplies (see Note 8)	<b>9,515,617</b>	12,415,583	12,100,838
Purchased power	<b>5,603,097</b>	3,846,572	2,300,375
Repairs and maintenance	<b>5,132,289</b>	2,636,872	3,623,921
Taxes and licenses	<b>86,716</b>	528,687	20,620
Others (see Note 25)	<b>6,414,790</b>	7,793,296	6,671,699
	<b>₱629,973,619</b>	₱353,744,937	₱179,619,355





## 17. General and Administrative Expenses

	2022	2021	2020
Business development	P60,654,276	P18,903,369	P14,630,833
Personnel costs (see Note 18)	54,946,611	49,368,334	41,547,310
Shared expenses	15,349,154	16,799,664	14,962,804
Directors' fees	13,663,315	11,648,792	12,336,758
Professional fees	12,287,279	10,808,450	12,832,395
Insurance	7,595,165	7,128,149	8,288,055
Rentals (see Notes 5 and 23)	6,627,758	3,157,626	3,377,925
Taxes and licenses	3,423,312	4,483,867	1,160,894
Repairs and maintenance	2,992,568	3,145,072	3,437,231
Depreciation and amortization (see Note 19)	2,820,635	6,375,008	6,688,693
Transportation and travel	2,434,358	1,234,975	2,221,577
Communications	1,919,259	2,044,361	2,480,788
Corporate social responsibility	1,433,842	1,417,610	3,895,715
Association dues	1,399,213	2,078,264	1,766,897
Office supplies	696,931	689,321	917,562
Power and water	645,977	434,387	622,292
Freight and handling	115,820	107,399	110,877
Entertainment, amusement and recreation	95,026	29,035	199,222
Provisions for impairment losses (see Note 7)	-	3,178,892	-
Others	6,676,159	4,185,398	4,519,915
	<b>P195,776,658</b>	<b>P147,217,973</b>	<b>P135,997,743</b>

Business development expenses pertains to various studies conducted in the market, including marketing expenses.

## 18. Personnel Costs

	2022	2021	2020
Salaries and wages	P50,862,194	P46,015,929	P41,423,652
Pension expense (see Note 21)	4,043,958	3,900,978	2,636,752
Other employee benefits	21,385,571	20,184,617	16,458,127
	<b>P76,291,723</b>	<b>P70,101,524</b>	<b>P60,518,531</b>

## 19. Depreciation and Amortization

	2022	2021	2020
Depreciation of property, plant and equipment			
Plant operations (see Note 16)	P37,469,068	P35,131,169	P34,031,455
General and administrative (see Note 17)	2,212,384	5,766,757	6,080,442
	<b>39,681,452</b>	<b>40,897,926</b>	<b>40,111,897</b>
Amortization of software costs:			
General and administrative (see Note 17)	608,251	608,251	608,251
	<b>P40,289,703</b>	<b>P41,506,177</b>	<b>P40,720,148</b>



## 20. Income Tax

The Company's provision for current income tax represents regular corporate income tax in 2022 and 2021.

	2022	2021
Current	<b>₱18,045,425</b>	₱27,681,501
Deferred	<b>16,923,976</b>	—
	<b>₱34,969,401</b>	₱27,681,501

On July 7, 2008, R.A. 9504, which amended the provisions of the 1997 Tax Code, became effective. It includes provisions relating to the availment of the OSD. Corporations, except for nonresident foreign corporations, may now elect to claim standard deduction in an amount not exceeding 40% of their gross income. A corporation must signify in its returns its intention to avail of the OSD. If no indication is made, it shall be considered as having availed of the itemized deductions. The availment of the OSD shall be irrevocable for the taxable year for which the return is made. On November 26, 2008, the BIR issued Revenue Regulations 16-2008 for the implementing guidelines of the law. In 2022, 2021 and 2020, the Parent Company availed of the OSD in the computation of its taxable income.

The reconciliation between the amounts of provision for income tax computed at the statutory tax rate to provision for income tax in the parent company statements of comprehensive income for the years ended December 31, 2022, 2021 and 2020 follows:

	2022	2021	2020
Income before income tax	<b>₱1,231,383,194</b>	₱1,603,075,786	₱1,896,274,646
Provision for income tax computed at 25% for 2022 and 2021 and 30% for 2020	<b>₱307,845,799</b>	₱400,768,947	₱568,882,394
Adjustments to income tax resulting from:			
Nontaxable dividend income	<b>(302,470,016)</b>	(376,444,319)	(516,218,874)
Net unrealized forex gain	—	368,684	(279,239)
Interest income already subjected to final tax	<b>(6,733,730)</b>	(7,905,405)	(14,208,897)
Impact of OSD	<b>36,790,134</b>	15,572,945	8,266,868
Others	<b>(462,786)</b>	(4,679,351)	2,434,795
	<b>₱34,969,401</b>	₱27,681,501	₱48,877,047

The net deferred income tax liability as at December 31 relate to the following:

	2022	2021
Deferred income taxes recognized in net income:		
Deferred income tax assets:		
Lease liability	<b>₱2,846,923</b>	₱—
	<b>2,846,923</b>	—
Deferred income tax liabilities:		
Right of use asset	<b>2,756,738</b>	—
Unrealized foreign exchange gain - net	<b>17,014,161</b>	—
	<b>19,770,899</b>	—
	<b>₱16,923,976</b>	₱—





As of December 31, 2022 and 2021, the Company has unrecognized deferred tax asset related to its allowance for impairment of receivables and pension liability amounting to ₱4.6 million and ₱3.8 million, respectively, because management believes that these items may have no possible future deductible benefit when these will be reversed, settled or realized.

## 21. Pension Plan

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

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

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

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

	2022	2021
Current service cost	₱3,613,471	₱3,835,475
Net interest cost on benefit obligation	430,487	65,503
	<b>₱4,043,958</b>	<b>₱3,900,978</b>

Remeasurement loss recognized under "Other comprehensive income" in the parent company statements of comprehensive income amounted to ₱3.4 million and ₱5.1 million in 2022 and 2021, while remeasurement gain recognized in 2020 amounted to ₱2.0 million.

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

	2022	2021
At January 1	₱35,876,553	₱28,912,164
Current service cost	3,613,471	3,835,475
Interest cost	1,818,941	1,416,696
Benefits paid	(454,680)	(385,054)
Remeasurement loss due to:		
Experience adjustments	-	2,342,921
Changes in financial assumptions	-	(245,649)
At December 31	<b>₱40,854,285</b>	<b>₱35,876,553</b>



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

	2022	2021
At January 1	₱27,385,679	₱27,575,364
Loss on return on plan assets	(3,352,674)	(3,044,923)
Interest income included in net interest cost	1,388,454	1,351,193
Contributions to the retirement fund	2,246,669	1,889,099
Benefits paid	(454,680)	(385,054)
At December 31	₱27,213,448	₱27,385,679

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

	2022	2021
At January 1	₱8,490,874	₱1,336,800
Pension expense	4,043,959	3,900,978
Remeasurement loss on retirement benefit obligation	3,352,674	5,142,195
Contribution to the retirement fund	(2,246,669)	(1,889,099)
At December 31	₱13,640,838	₱8,490,874

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

	2022	2021
Cash and cash equivalents	₱11,417,171	₱8,005,290
Investments in government securities	15,718,407	19,241,227
Accrued interest income	116,359	156,989
Total assets	27,251,937	27,403,506
Total liabilities	38,489	17,827
Fair value of plan assets	₱27,213,448	₱27,385,679

All government securities are equity instruments that have quoted prices in an active market.

The Parent Company expects to contribute to the retirement fund in 2022.

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

	2022	2021
Discount rate	5.07%	5.07%
Future salary increase rate	6.00%	6.00%





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

	Increase (Decrease)	Present Value Change of Defined Benefit Obligation	
		2022	2021
Discount rate	+100 basis points	(P2,862,035)	(P1,360,722)
	-100 basis points	375,024	1,580,135
Salary increase rate	+100 basis points	510,758	1,703,449
	-100 basis points	(3,019,055)	(1,503,374)

The weighted average duration of the benefit payments is approximately 15.20 years as of December 31, 2022 and 2021. The expected benefit payment assumes that all actuarial assumptions will materialize.

Shown below is the maturity analysis of the undiscounted benefit payments as of December 31:

Plan Year	2022	2021
Less than one year	P4,927,589	P21,256,049
One year to less than five years	7,245,290	8,311,265
Five years to less than 10 years	10,223,276	11,494,691
10 years to less than 15 years	6,993,693	9,948,263
15 years to less than 20 years	10,673,683	20,593,742
20 years and above	28,600,317	42,974,318

## 22. Financial Risk Management Objectives and Policies

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

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

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

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

### Liquidity Risk

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



placements. These placements are maintained to meet maturing obligations and pay dividend declarations.

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

2022				
	Total	Current	1 to 30 Days	Over 30 Days
<b>Financial Assets</b>				
At amortized cost:				
Cash and cash equivalents	P3,587,754,678	P3,587,754,678	P-	P-
Trade and other receivables	125,455,760	20,740,725	14,323,330	90,391,705
	3,713,210,438	3,608,495,403	14,323,330	90,391,705
At FVOCI:				
Investment in proprietary club shares	13,000,000	-	-	13,000,000
	3,726,210,438	3,608,495,403	14,323,330	103,391,705
<b>Financial Liabilities</b>				
Other financial liabilities:				
Trade and other payables*				
Trade	103,823,196	103,497,837	47,677	277,682
Non-trade	6,041,601	1,132,195	74,122	4,835,284
Accrued expenses	6,962,969	253,439	121,898	6,587,632
	116,827,766	104,883,471	243,697	11,700,598
Due to related parties	821,072	189,179	-	631,893
Lease liabilities	13,215,403	-	-	13,215,403
	130,864,241	105,072,650	243,697	25,547,894
<b>Net Financial Assets</b>	<b>P3,595,346,197</b>	<b>P3,503,422,753</b>	<b>P14,079,633</b>	<b>P77,843,811</b>

2021				
	Total	Current	1 to 30 Days	Over 30 Days
<b>Financial Assets</b>				
At amortized cost:				
Cash and cash equivalents	P2,624,510,564	P2,624,510,564	P-	P-
Trade and other receivables	199,048,237	148,803,218	20,471,014	29,774,005
	2,823,558,801	2,773,313,782	20,471,014	29,774,005
At FVOCI:				
Investment in proprietary club shares	8,000,000	-	-	8,000,000
	2,831,558,801	2,773,313,782	20,471,014	37,774,005
<b>Financial Liabilities</b>				
Other financial liabilities:				
Trade and other payables*				
Trade	98,197,245	92,157,737	948,095	5,091,413
Non-trade	6,174,539	1,806,091	66,544	4,301,904
Accrued expenses	7,904,261	934,551	59,338	6,910,372
	112,276,045	94,898,379	1,073,977	16,303,689
Due to related parties	1,164,211	217,206	-	947,005
Lease liabilities	2,662,317	2,662,317	-	-
	116,102,573	97,777,902	1,073,977	17,250,694
<b>Net Financial Assets</b>	<b>P2,715,456,228</b>	<b>P2,675,535,880</b>	<b>P19,397,037</b>	<b>P20,523,311</b>

\*Excluding Statutory Payables

### Credit Risk

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

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

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





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

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

2022			
	Maximum exposure	Offset	Exposure to credit risk
<b>At Amortized Cost</b>			
Cash and cash equivalents (excluding cash on hand)	P3,587,463,681	(P3,620,954)	P3,583,842,727
Trade and other receivables	125,455,760	—	125,455,760
	<b>P3,712,919,441</b>	<b>(P3,620,954)</b>	<b>P3,709,298,487</b>
2021			
	Maximum exposure	Offset	Exposure to credit risk
<b>At Amortized Cost</b>			
Cash and cash equivalents (excluding cash on hand)	P2,624,225,882	(P3,500,000)	P2,620,725,882
Trade and other receivables	199,048,237	—	199,048,237
	<b>P2,823,274,119</b>	<b>(P3,500,000)</b>	<b>P2,819,774,119</b>

As of December 31, 2022 and 2021, the Parent Company's significant concentration of credit risk pertains to its trade and other receivables amounting to P125.5 million and P199.0 million, respectively, and impaired financial assets, determined based on probability of collection, have been adequately covered with allowance.

The following are the details of the Parent Company's assessment of credit quality and the related ECLs as at December 31, 2022 and 2021:

#### *General Approach*

- *Cash and cash equivalents* - As of December 31, 2022 and 2021, the ECL relating to the cash and cash equivalents of the Parent Company is minimal as these are deposited in reputable banks which have good bank standing, and is considered to have low credit risk.
- *Due from related parties* - As of December 31, 2022 and 2021, there were no individually impaired accounts. No ECL is recognized for these receivables since there were no history of default payments. This assessment is undertaken each financial year through examining the financial position of the parties and the markets in which the parties operate.

#### *Simplified Approach*

- *Trade and Other Receivables* - The Parent Company applied the simplified approach under PFRS 9, using a 'provision matrix'. As of December 31, 2022 and 2021, the allowance for impairment losses as a result from performing collective and specific impairment test amounted to P4.6 million and P6.9 million, respectively.



Management evaluated that the Parent Company's trade receivables are of high grade and of good credit quality.

2022					
	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Lifetime ECL Simplified Approach	Total
Gross carrying amount	P-	P-	P4,599,036	P125,455,760	P130,054,796
Loss allowance	-	-	(4,599,036)	-	(4,599,036)
Carrying amount	P-	P-	P-	P125,455,760	P125,455,760

2021					
	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Lifetime ECL Simplified Approach	Total
Gross carrying amount	P-	P-	P6,892,930	P199,048,237	P205,941,167
Loss allowance	-	-	(6,892,930)	-	(6,892,930)
Carrying amount	P-	P-	P-	P199,048,237	P199,048,237

The Parent Company grades its financial assets as follows:

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

#### Fair Value of Financial Assets and Financial Liabilities

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

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

- *Cash and Cash Equivalents, Trade and Other Receivables and Trade and Other Payables.* The carrying amounts of cash and cash equivalents, trade and other receivables and trade and other payables approximate their value due to the relatively short-term maturity of these financial instruments.
- *Investment in Proprietary Club Shares.* Market values have been used to determine the fair value of traded proprietary club shares.

As of December 31, 2022 and 2021, the Parent Company considers its investment in proprietary club shares with fair values of ₱13.0 million and ₱8.0 million under Level 1 classification, respectively (see Notes 3 and 13).





During the reporting period ended December 31, 2022, there were no transfers between Level 1 and Level 2 fair value measurements, and no transfers into and out of Level 3 fair value measurements.

## 23. Lease Agreements

The Parent Company has entered into various leases for rooms, office spaces, parking lots, sub transmission line steel post space, and parcel of land which include those with respect to its LLA with PSALM (see Note 25). Lease of parcel of land generally has a lease term of 25 years. Lease terms for the other leased assets generally vary between five months to three years. Total rent expense charged to operations amounted to ₱7.3 million, ₱4.6 million and ₱4.0 million in 2022, 2021 and 2020, respectively (see Notes 16 and 17).

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

	2022	2021
At January 1	₱2,662,317	₱4,427,756
Additions	12,252,170	-
Interest accretion	373,979	112,059
Payments of:		
Principal	(3,526,795)	(1,765,439)
Interest	(373,979)	(112,059)
	₱11,387,692	₱2,662,317

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

	2022	2021
Depreciation expense of right-of-use assets	₱1,225,217	₱3,087,673
Interest expense on lease liabilities	373,979	112,059
Rent expense - short-term leases (see Notes 16 and 17)	7,307,592	4,586,277
	₱8,906,788	₱7,786,009

## 24. Notes to the Parent Company Statements of Cash Flows

Changes in liabilities arising from financing activities in 2022, 2021 and 2020 are as follows:

	January 1, 2022	Dividend Declaration	Amortization of Transaction Costs	Additions	Cash Flows	December 31, 2022
Dividends payable (see Note 15)	₱-	₱299,310,361	₱-	₱-	(₱299,310,361)	₱-
Lease liabilities (see Note 23)	2,662,317	-	-	12,252,170	(3,526,795)	11,387,692
	₱2,662,317	₱299,310,361	₱-	₱12,252,170	(₱302,837,156)	₱11,387,692



	January 1, 2021	Dividend Declaration	Amortization of Transaction Costs	Additions	Cash Flows	December 31, 2021
Dividends payable (see Note 15)	P-	P2,319,655,295	P-	P-	(P2,319,655,295)	P-
Lease liabilities (see Note 23)	4,427,756	-	-	-	(1,765,439)	2,662,317
	<u>P4,427,756</u>	<u>P2,319,655,295</u>	<u>P-</u>	<u>P-</u>	<u>(P2,321,420,734)</u>	<u>P2,662,317</u>

	January 1, 2020	Dividend Declaration	Amortization of Transaction Costs	Additions	Cash Flows	December 31, 2020
Dividends payable (see Note 15)	P-	P1,197,241,442	P-	P-	(P1,197,241,442)	P-
Lease liabilities (see Note 23)	8,502,282	-	-	-	(4,074,526)	4,427,756
	<u>P8,502,282</u>	<u>P1,197,241,442</u>	<u>P-</u>	<u>P-</u>	<u>(P1,201,315,968)</u>	<u>P4,427,756</u>

## 25. Other Matters

### Electricity Power Industry Reform Act (EPIRA) of 2001

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

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

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

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

### Ancillary Services Procurement Agreement (ASPA)

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

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





approval by the ERC of the application filed on February 14, 2019. The ASPA was implemented effective September 26, 2019.

Land Lease Agreements (LLA)

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

- *LBGTs.* On January 29, 2010, the Parent Company executed the LLA with a term of 10 years up to January 28, 2020 which may be renewed or extended for another period of 10 years or the remaining corporate life of PSALM, whichever is shorter, upon the mutual written agreement of the parties. The rentals which were paid in full on March 25, 2009 (the "Closing Date") amounted to ₱1.2 million.
- *153.1 MW Nuga Power Plant (consisting of CTPP 1, CTPP 2 and CDPP 1).* On September 25, 2014, the Parent Company executed the LLA with a term of 25 years from Closing Date, which may be renewed or extended for another period of 25 years or the remaining corporate life of PSALM, whichever is shorter, upon the mutual written agreement of the parties. The rentals which were paid in full in 2014 amounted to ₱712.5 million including withholding tax borne by the Parent Company.

Under the LLA, the Parent Company shall use and occupy the leased premises primarily for the operation, management, expansion and maintenance of the power plants, and shall not assign or transfer any of its right under the LLA or sublease all or any part of the leased premises without the prior consent of PSALM.

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

The Parent Company, at its own expense, shall be solely responsible for obtaining all the necessary authorizations, licenses and permits for any alterations, additions, facilities, improvements and installations introduced on the leased premises by or for the benefit of the Parent Company.

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

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

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

VAT

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



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

	Net Sales/ Receipts	Output VAT
Vatable sales:		
Sale of services	P655,038,547	P78,604,626
Sale of goods	50,943,162	6,113,179
	705,981,709	84,717,805
Zero-rated sales/Sales to Government	31,419,170	1,169,122
	<u>P737,400,879</u>	<u>P85,886,927</u>

- Input VAT

At January 1	P4,712,572
Current year's domestic purchases/payments or importations for:	
Goods other than for resale or manufacture	70,315,189
Services lodged under general and administrative expenses and other accounts	11,462,176
Capital goods subject to amortization	4,200,000
	90,689,937
Claims for tax credit/refund and other adjustments	(85,643,118)
At December 31	<u>P5,046,819</u>

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

Dutiable value	P2,917,686
Customs duties	156,795
Brokerage charges	45,395
Total landed cost	<u>P3,119,876</u>

#### Excise Taxes

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

#### Other Taxes and Licenses

All other local taxes, local and national, including real estate taxes, license and permit fees were lodged under the Taxes and Licenses account under "Cost of Services" and "General and administrative expenses" in the 2022 parent company statement of comprehensive income:

Details consist of the following:

Local:	
Business tax	P1,945,414
License and permits fees	140,395
National:	
Documentary stamp taxes	1,406,805
Others	17,413
	<u>P3,510,027</u>

