

COVER SHEET

for

AUDITED FINANCIAL STATEMENTS

SEC Registration Number

A S 9 4 0 0 2 3 6 5

COMPANY NAMES P C P O W E R C O R P O R A T I O N A N D S U B S
I D I A R I E S

PRINCIPAL OFFICE (No. / Street / Barangay / City / Town / Province)7 t h F l o o r , B D O T o w e r s P a s e o , 8
7 4 1 , P a s e o d e R o x a s , M a k a t i C i
t y , 1 2 0 9

Form Type

A A C F S

Department requiring the report

C R M D

Secondary License Type, If Applicable

N / A

COMPANY INFORMATION

Company's Email Address

info@spcpower.com

Company's Telephone Number

(032) 232-0377

Mobile Number

N/A

No. of Stockholders

757

Annual Meeting (Month / Day)

05/30

Fiscal Year (Month / Day)

12/31

CONTACT PERSON INFORMATIONThe designated contact person **MUST** be an Officer of the Corporation

Name of Contact Person

Niño Ray D. Aguirre

Email Address

info@spcpower.com

Telephone Number/s

(028) 810 4476

Mobile Number

(0917) 802 9343

CONTACT PERSON'S ADDRESS

7th Floor, BDO Towers Paseo, 8741, Paseo de Roxas, Makati City, 1209

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

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



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

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SPC Power Corporation

STATEMENT OF MANAGEMENT'S RESPONSIBILITY FOR CONSOLIDATED FINANCIAL STATEMENTS

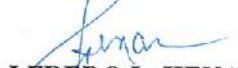
The management of **SPC Power Corporation and Subsidiaries** (the Group) is responsible for the preparation and fair presentation of the **consolidated** financial statements including the schedules attached therein, for the years ended December 31, 2023 and 2022, in accordance with the prescribed financial reporting framework indicated therein, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.


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

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

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

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


ALFREDO L. HENARES
Chairman of the Board


DENNIS T. VILLAREAL
Chief Executive Officer and President


NIÑO RAY D. AGUIRRE
Treasurer/Vice President - Finance


Signed this 11th day of April 2024.

APR 12 2024

SUBSCRIBED AND SWORN TO before me this _____ day of April 2024 at Makati City; Affiants exhibited to me their Passport Nos. as follows:

<u>Names</u>	<u>CTC/Passport No.</u>	<u>Date of Issue</u>	<u>Place of Issue</u>
Alfredo L. Henares	P5099307B	March 11, 2020	DFA NCR East
Dennis T. Villareal	P8767960A	September 17, 2018	DFA Manila
Niño Ray D. Aguirre	P2916565C	January 13, 2023	DFA Manila

Doc. No. 68
Page No. 15
Book No. 13
Series of 2024.


ATTY. JOEL FERRER FLORES
Notary Public for Makati City
Until December 31, 2024
Appointment No. 113 (2023-2024)
Roll of Attorneys No. 77376
MCLE Compliance No. 6201393
Jan. 3, 2023 until Apr. 12, 2028
PTR NO. 1097-2023-2024/Makati City
IBP No. 3307-2023-2024/Pasig City
1107 Bataan St., Guadalupe Nuevo, Makati City

INDEPENDENT AUDITOR'S REPORT

The Board of Directors and the Stockholders
SPC Power Corporation
7th Floor, BDO Towers Paseo
Paseo de Roxas
Makati City

Opinion

We have audited the consolidated financial statements of SPC Power Corporation and its subsidiaries (the Group), which comprise the consolidated statements of financial position as at December 31, 2023 and 2022, and the consolidated statements of comprehensive income, consolidated statements of changes in equity and consolidated statements of cash flows for each of the three years in the period ended December 31, 2023, and notes to the consolidated financial statements, including material accounting policy information.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at December 31, 2023 and 2022, and its consolidated financial performance and its consolidated cash flows for each of the three years in the period ended December 31, 2023 in accordance with Philippine Financial Reporting Standards (PFRSs).

Basis for Opinion

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

Key Audit Matters

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



We have fulfilled the responsibilities described in the *Auditor's Responsibilities for the Audit of the Consolidated Financial Statements* section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the consolidated financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying consolidated financial statements.

Revenue recognition from distribution of power

The Group's revenue from the distribution of power amounting to ₱1.68 billion represents 37% of total revenue in 2023 and arises from its service contracts to a large number of customers consisting of commercial, residential, government institutions and other customers located within its franchise area. This matter is significant to our audit because the revenue recognized depends on the completeness of electric consumption captured based on meter readings over the franchise area, as obtained on various meter reading dates; the propriety of the rates, computed and applied based on the Energy Regulatory Commission (ERC)-approved formulae, which vary depending on the types of customers; and the reliability of the billing system in processing transactions. Disclosures related to this matter are provided in Notes 3 and 23 to the consolidated financial statements.

Audit response

We obtained an understanding of the revenue recognition process, which includes capturing electric consumption, uploading captured electric consumption to the billing system, calculating billed amounts based on ERC-approved rates and uploading data from the billing system to the financial reporting system. We also evaluated and tested the design of the relevant controls over these processes. We also performed a test recalculation of billed amounts using the ERC-approved rates and formulae, and compared them with the amounts reflected in the billing statements.

Accounting for investments in significant associates

The Group owns 40% of KEPCO SPC Power Corporation (KEPCO SPC) and Mactan Electric Company, Inc. (MECO). As discussed in Note 10 to the consolidated financial statements, the Group's investments in these associates are accounted for under the equity method. As of December 31, 2023, the investments in these associates amounted to ₱5.8 billion representing 46% of the Group's consolidated total assets, and the Group's equity in net earnings from these associates for the year then ended amounted to ₱0.6 billion representing 48% of the Group's consolidated net income. The accounting for these investments is significant to our audit because of the substantial amount of the Group's investments in and equity in net earnings from these associates. Also, the Group's share in the net earnings of MECO is significantly affected by MECO's revenue recognition arising from its service contracts to various customers located within its franchise area. The recognition of such revenue depends on the completeness of the electric consumption captured based on meter readings conducted on various dates over the franchise area; the propriety of the rates, computed and applied based on the ERC-approved formulae, which vary depending on the types of customers; and the reliability of the billing system in processing transactions. Further, MECO is audited by other auditors.



Audit response

We obtained an understanding of the Group's process in recognizing its equity in net earnings of associates, including the understanding of their business transactions. Also, we coordinated with and instructed the external auditors of MECO to perform an audit on the relevant financial information of MECO for the purpose of the Group's consolidated financial statements. We reviewed the risk assessment and audit strategy of the other auditors in light of any significant developments affecting MECO. We obtained the audited financial information of KEPCO SPC and MECO and recomputed the Group's equity in net earnings for the year ended December 31, 2023.

In addition to reviewing the relevant working papers of the other auditors, we also obtained an understanding of the revenue recognition process of MECO, which includes capturing electric consumption, uploading captured electric consumption to the billing system, calculating billed amounts based on ERC-approved rates and uploading data from the billing system to the financial reporting system. We reviewed the procedures performed by the other auditors to evaluate the design of the relevant controls over these processes and to test these controls. We reviewed the test recalculation of the rates using the ERC-approved rates and formulae, and the comparison done with the rate reflected on the billing statements, as performed by the other auditors.

Other Information

Management is responsible for the other information. The other information comprises the information included in the SEC Form 20-IS (Definitive Information Statement), SEC Form 17-A and Annual Report for the year ended December 31, 2023, but does not include the consolidated financial statements and our auditor's report thereon. The SEC Form 20-IS (Definitive Information Statement), SEC Form 17-A and Annual Report for the year ended December 31, 2023 are expected to be made available to us after the date of this auditor's report.

Our opinion on the consolidated financial statements does not cover the other information and we will not express any form of assurance conclusion thereon.

In connection with our audits of the consolidated financial statements, our responsibility is to read the other information identified above when it becomes available and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audits or otherwise appears to be materially misstated.

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

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



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

Those charged with governance are responsible for overseeing the Group's financial reporting process.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with PSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with PSAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.



- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

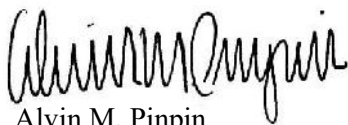
We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in this independent auditor's report is Alvin M. Pinpin.

SYCIP GORRES VELAYO & CO.



Alvin M. Pinpin

Partner

CPA Certificate No. 94303

Tax Identification No. 198-819-157

BOA/PRC Reg. No. 0001, August 25, 2021, valid until April 15, 2024

BIR Accreditation No. 08-001998-070-2023, October 23, 2023, valid until October 22, 2026

PTR No. 10079991, January 6, 2024, Makati City

April 11, 2024



SPC POWER CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

	December 31	
	2023	2022
ASSETS		
Current Assets		
Cash and cash equivalents (Note 6)	₱4,743,043,034	₱4,031,421,593
Trade and other receivables (Notes 5, 7 and 29)	649,107,657	695,835,058
Inventories - at cost (Note 9)	399,393,666	467,547,381
Prepayments and other current assets (Note 10)	83,709,811	100,931,667
Total Current Assets	5,875,254,168	5,295,735,699
Noncurrent Assets		
Investments in associates (Note 8)	5,815,751,427	5,432,453,664
Property, plant and equipment (Note 11)	736,630,614	734,717,862
Goodwill (Note 13)	32,522,016	32,522,016
Intangible assets (Note 12)	2,171,373	3,257,057
Deferred income tax assets (Note 25)	35,457,044	34,227,789
Other noncurrent assets (Notes 12 and 29)	33,371,571	74,789,209
Total Noncurrent Assets	6,655,904,045	6,311,967,597
TOTAL ASSETS	₱12,531,158,213	₱11,607,703,296
LIABILITIES AND EQUITY		
Current Liabilities		
Trade and other payables (Notes 5, 14 and 29)	₱857,254,666	₱777,024,871
Income tax payable	10,919,560	33,967,216
Current portion of lease liabilities (Note 30)	2,200,254	1,828,196
Total Current Liabilities	870,374,480	812,820,283
Noncurrent Liabilities		
Customers' deposits (Note 15)	193,914,394	191,579,049
Asset retirement obligation (Note 16)	93,069,477	94,302,870
Net pension liabilities (Note 17)	37,166,411	43,731,722
Lease liabilities - net of current portion (Note 30)	7,359,242	9,559,496
Deferred income tax liabilities (Note 25)	19,725,739	20,652,099
Other noncurrent liabilities (Note 29)	1,839,924	35,571,861
Total Noncurrent Liabilities	353,075,187	395,397,097
Total Liabilities	1,223,449,667	1,208,217,380

(Forward)



	December 31	
	2023	2022
Equity Attributable to Equity Holders of the Parent		
Capital stock - ₱1 par value (Note 18)		
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 18):		
Appropriated	–	1,800,000,000
Unappropriated	9,598,002,269	6,927,417,031
Other comprehensive income (loss):		
Remeasurement of employee benefits	1,208,496	(3,858,148)
Share in remeasurement of employee benefits of associates	2,941,249	6,800,073
Net unrealized valuation gains on financial asset at fair value through other comprehensive income (FVOCI) (Note 12)	13,350,000	11,350,000
Treasury stock at cost - 72,940,097 shares	(131,008,174)	(131,008,174)
	11,140,796,492	10,267,003,434
Equity Attributable to Non-controlling Interests (Note 18)	166,912,054	132,482,482
Total Equity	11,307,708,546	10,399,485,916
TOTAL LIABILITIES AND EQUITY	₱12,531,158,213	₱11,607,703,296

See accompanying Notes to Consolidated Financial Statements.



SPC POWER CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

	Years Ended December 31		
	2023	2022	2021
REVENUE (Notes 23, 24, 26 and 29)	₱4,552,436,779	₱3,849,971,823	₱2,469,384,265
COST OF OPERATIONS (Notes 19, 24 and 29)	3,684,663,567	3,290,172,921	1,952,491,814
GROSS MARGIN	867,773,212	559,798,902	516,892,451
GENERAL AND ADMINISTRATIVE EXPENSES (Note 20)	296,323,684	249,308,260	205,743,668
OTHER INCOME (CHARGES) - Net			
Equity in net earnings of associates (Note 8)	587,156,364	925,354,304	867,849,896
Interest income (Note 6)	160,535,324	27,837,299	34,593,723
Interest expense (Notes 15, 16, 30 and 31)	(5,537,842)	(5,028,156)	(4,470,615)
Net foreign exchange gains (losses)	(8,323,813)	94,363,484	7,825,158
Service income (Note 5)	—	—	40,002,385
Others - net (Notes 16 and 29)	47,240,985	41,871,888	22,389,454
	781,071,018	1,084,398,819	968,190,001
INCOME BEFORE INCOME TAX	1,352,520,546	1,394,889,461	1,279,338,784
PROVISION FOR INCOME TAX (Note 25)	141,353,080	108,107,131	81,625,714
NET INCOME	1,211,167,466	1,286,782,330	1,197,713,070
OTHER COMPREHENSIVE INCOME (LOSS)			
<i>Items that will not be reclassified to profit or loss:</i>			
Share in remeasurement of employee benefits of associates, net of tax effect (Note 10)	(3,858,824)	6,529,281	1,326,876
Remeasurement of employee benefits, net of tax effect (Note 17)	5,175,350	(3,610,495)	(2,471,042)
Unrealized valuation gain on financial asset at FVOCI (Note 12)	2,000,000	5,000,000	600,000
	3,316,526	7,918,786	(544,166)
TOTAL COMPREHENSIVE INCOME	₱1,214,483,992	₱1,294,701,116	₱1,197,168,904
NET INCOME ATTRIBUTABLE TO:			
Equity holders of the Parent	₱1,169,895,562	₱1,272,356,481	₱1,190,653,672
Non-controlling interests	41,271,904	14,425,849	7,059,398
	₱1,211,167,466	₱1,286,782,330	₱1,197,713,070
TOTAL COMPREHENSIVE INCOME ATTRIBUTABLE TO:			
Equity holders of the Parent	₱1,173,103,419	₱1,280,394,745	₱1,190,068,491
Non-controlling interests	41,380,573	14,306,371	7,100,413
	₱1,214,483,992	₱1,294,701,116	₱1,197,168,904
EARNINGS PER SHARE (Note 27)			
Basic/Diluted, for income for the year attributable to equity holders of the Parent	₱0.78	₱0.85	₱0.80

See accompanying Notes to Consolidated Financial Statements.



SPC POWER CORPORATION AND SUBSIDIARIES

**CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2023, 2022 AND 2021**

	Equity Attributable to Equity Holders of the Parent										
	Capital Stock (Note 18)	Additional Paid-in Capital	Retained Earnings (Note 18)		Remeasurement of Employee Benefits (Note 17)	Other Comprehensive Income (Loss)		Treasury Stock at Cost	Total	Non-controlling Interest	Total
						Net Unrealized Valuation Gains on Financial Assets at FVOCI (Note 12)	Share in Remeasurement of Employee Benefits of Associates (Note 10)				
			Appropriated	Unappropriated							
At January 1, 2021	₱1,569,491,900	₱86,810,752	₱1,800,000,000	₱7,083,372,533	₱2,144,925	₱5,750,000	(₱1,056,084)	(₱131,008,174)	₱10,415,505,852	₱139,765,972	₱10,555,271,824
Total comprehensive income	–	–	–	1,190,653,672	(2,512,057)	600,000	1,326,876	–	1,190,068,491	7,100,413	1,197,168,905
Cash dividends (Note 18)	–	–	–	(2,319,655,293)	–	–	–	–	(2,319,655,293)	(10,426,500)	(2,330,081,793)
At December 31, 2021	1,569,491,900	86,810,752	1,800,000,000	5,954,370,912	(367,132)	6,350,000	270,792	(131,008,174)	9,285,919,050	136,439,885	9,422,358,935
At January 1, 2022	1,569,491,900	86,810,752	1,800,000,000	5,954,370,912	(367,132)	6,350,000	270,792	(131,008,174)	9,285,919,050	136,439,885	9,422,358,935
Total comprehensive income	–	–	–	1,272,356,480	(3,491,016)	5,000,000	6,529,281	–	1,280,394,745	14,306,371	1,294,701,116
Cash dividends (Note 18)	–	–	–	(299,310,361)	–	–	–	–	(299,310,361)	(18,263,774)	(317,574,135)
At December 31, 2022	1,569,491,900	86,810,752	1,800,000,000	6,927,417,031	(3,858,148)	11,350,000	6,800,073	(131,008,174)	10,267,003,434	132,482,482	10,399,485,916
At January 1, 2023	1,569,491,900	86,810,752	1,800,000,000	6,927,417,031	(3,858,148)	11,350,000	6,800,073	(131,008,174)	10,267,003,434	132,482,482	10,399,485,916
Total comprehensive income	–	–	–	1,169,895,599	5,066,644	2,000,000	(3,858,824)	–	1,173,103,419	41,380,573	1,214,483,992
Reversal of appropriation	–	–	(1,800,000,000)	1,800,000,000	–	–	–	–	–	–	–
Cash dividends (Note 18)	–	–	–	(299,310,361)	–	–	–	–	(299,310,361)	(6,951,001)	(306,261,362)
At December 31, 2023	₱1,569,491,900	₱86,810,752	₱–	₱9,598,002,269	₱1,208,496	₱13,350,000	₱2,941,249	(₱131,008,174)	₱11,140,796,492	₱166,912,054	₱11,307,708,546

See accompanying Notes to Consolidated Financial Statements.



SPC POWER CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS

	Years Ended December 31		
	2023	2022	2021
CASH FLOWS FROM OPERATING ACTIVITIES			
Income before income tax	₱1,352,520,546	₱1,394,889,461	₱1,279,338,784
Adjustments for:			
Equity in net earnings of associates (Note 10)	(587,156,364)	(925,354,304)	(867,849,896)
Interest income (Note 6)	(160,535,324)	(27,837,299)	(34,593,723)
Depreciation and amortization (Notes 11 and 22)	93,950,667	84,260,245	86,974,417
Net unrealized foreign exchange losses (gains)	8,323,813	(67,950,875)	(1,636,497)
Change in asset retirement obligation	(6,048,263)	—	—
Interest expense (Notes 15, 16, 30 and 31)	5,537,842	5,028,156	4,470,615
Net changes in pension liabilities (Note 17)	(1,498,667)	5,347,395	3,128,466
Loss on disposal of assets (Note 11)	—	—	977,362
Operating income before working capital changes	705,094,250	468,382,779	470,809,528
Decrease (increase) in:			
Trade and other receivables	91,509,418	(199,620,021)	(151,783,569)
Inventories	68,153,715	(77,728,013)	(26,191,541)
Prepayments and other current assets	17,048,980	(15,267,463)	(21,356,892)
Increase (decrease) in:			
Trade and other payables	(29,684,739)	228,031,571	79,029,426
Customers' deposits	2,274,264	4,729,452	11,921,883
Cash generated from operations	854,395,888	408,528,305	362,428,835
Income taxes paid	(166,634,543)	(66,247,814)	(96,437,352)
Interest received	160,535,324	27,847,276	34,605,171
Interest paid	(719,279)	(498,731)	(161,687)
Net cash flows from operating activities	847,577,390	369,629,036	300,434,967
CASH FLOWS FROM INVESTING ACTIVITIES			
Cash dividends received (Notes 5 and 8)	159,999,821	1,004,673,518	1,146,799,813
Additions to property, plant and equipment (Note 11)	(94,777,735)	(73,874,351)	(70,777,080)
Cash inflows (outflows) arising from advances to suppliers and contractors and others	—	—	(10,877,738)
Proceeds from disposal of property, plant and equipment	—	—	92,038
Net cash flows from investing activities	65,222,086	930,799,167	1,065,237,033

(Forward)



	Years Ended December 31		
	2023	2022	2021
CASH FLOWS FROM FINANCING ACTIVITIES			
Dividends paid (Note 18)	(₱191,026,026)	(₱317,574,134)	(₱2,325,739,309)
Payments of principal portion of lease liabilities (Notes 30 and 31)	(1,828,196)	(3,526,795)	(1,765,439)
Cash flows used in financing activities	(192,854,222)	(321,100,929)	(2,327,504,748)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	719,945,254	979,327,274	(961,832,748)
EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS	(8,323,813)	67,983,684	1,636,497
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	4,031,421,593	2,984,110,635	3,944,306,886
CASH AND CASH EQUIVALENTS AT END OF YEAR (Note 6)	₱4,743,043,034	₱4,031,421,593	₱2,984,110,635

See accompanying Notes to Consolidated Financial Statements.



SPC POWER CORPORATION AND SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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 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 18).

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 between SIPC and PSALM. On June 30, 2016, PSALM turned over the PB 104 to the Parent Company (see Note 11).

On September 9, 2016, the Parent Company's Board of Directors 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 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. On October 11, 2021, 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. Such amendment was approved by the SEC on June 9, 2022.



The consolidated financial statements comprise the financial statements of the Parent Company and the following subsidiaries:

	Nature of Business	% of Ownership		
		Direct	Indirect	Total
SPC Island Power Corporation	Power generation	100.00%	—	100.00%
Cebu Naga Power Corporation	Power generation	100.00%	—	100.00%
SPC Malaya Power Corporation	Power generation	40.00%	38.40%	78.40%
SPC Light Company, Inc.	Holding company	40.00%	24.00%	64.00%
Bohol Light Company, Inc.	Power distribution	39.90%	13.76%	53.66%
SPC Electric Company, Inc.	Holding company	40.00%	—	40.00%

SPC Island Power Corporation (SIPC). SIPC, a wholly owned subsidiary, was incorporated and registered with the SEC on June 26, 2001. It operates the 146.5 MW Panay Diesel Power Plant (PDPP) (located in Dingle, Iloilo) and the 22 MW Bohol Diesel Power Plant (BDPP) (located in Tagbilaran City, Bohol) which were acquired on March 25, 2009 through the assignment of the Parent Company's rights and obligations to SIPC. It also operated the Olango Diesel Power Plant (ODPP) (located in the Island of Olango, Lapu-Lapu City) from September 15, 2001 to March 12, 2021. ODPP supplied all the generated electricity to Mactan Electric Company, Inc. (MECO), an associate. On February 14, 2022, SIPC, in its intention to promote education and welfare among the people in Olango Island and nearby areas, donated the ODPP to the Technical Education and Skills Development Authority (TESDA), a government agency tasked to manage and supervise technical education and skills development in the Philippines.

Cebu Naga Power Corporation (CNPC). CNPC was incorporated and registered with the SEC on August 12, 2015 to undertake the development, ownership, construction, operation and management of a new 2x150 MW Circulating Fluidized Bed Combustion (CFBC) Coal-fired Power Plant to replace the old CTPP 1 and CTPP 2 in the NPPC, Colon, City of Naga, Cebu. The construction of the new power plant had been aborted due to the adverse Supreme Court decision that led to the return of the NPPC to PSALM on July 31, 2018 (see Note 29). CNPC has not started commercial operations.

SPC Malaya Power Corporation (SMPC). SMPC was incorporated and registered with the SEC on September 22, 2011. SMPC won the bidding processes for the Operation and Maintenance Service Contract (OMSC) of the 650 MW Malaya Thermal Power Plant (MTPP) located in Pililia, Rizal and accordingly operated the MTPP from October 25, 2011 to October 25, 2014. However, SMPC did not participate in the subsequent biddings of the OMSC after October 25, 2014. SMPC has not restarted commercial operations since October 26, 2014.

Bohol Light Company, Inc. (BLCI). BLCI was incorporated on July 21, 2000 to engage in the business of supply and distribution of electricity, subject to applicable laws, rules and regulations. On July 10, 2003, the National Electrification Commission (NEC) granted BLCI's franchise to operate electric, light and power services for a period of 25 years retroactive from October 20, 2000 to October 19, 2025 in the area presently comprised by Tagbilaran City, Bohol. On April 12, 2021, BLCI filed for the renewal of its Certificate of Public Convenience and Necessity (CPCN) which expired last June 12, 2021. As of December 31, 2023, BLCI continues to operate even with its pending approval on the renewal of its CPCN with the Energy Regulatory Commission (ERC).



SPC Electric Company, Inc. (SECI) and SPC Light Company, Inc. (SLCI). SECI and SLCI were incorporated on October 17, 2002 and January 15, 2003, respectively, primarily to design, construct, install, commission, rehabilitate, maintain, manage, operate and invest in power generation/distribution plants and related facilities. The Parent Company has the power to govern the financial and operating policies of SECI by virtue of an agreement, making it eligible for consolidation in accordance with PFRS 10, *Consolidated Financial Statements*. SECI and SLCI have not started commercial operations.

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

The consolidated financial statements of the Parent Company and its subsidiaries (collectively referred to as the "Group") were authorized for issue by the Board of Directors (BOD) of the Parent Company on April 11, 2024.

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

Basis of Preparation

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

Statement of Compliance

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

Principles of Consolidation

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

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

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

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

- derecognizes the assets (including goodwill) and liabilities of the subsidiary;
- derecognizes the carrying amount of any non-controlling interest;



- derecognizes the cumulative translation differences recorded in equity;
- recognizes the fair value of the consideration received;
- recognizes the fair value of any investment retained;
- recognizes any surplus or deficit in profit or loss; and
- reclassifies the Parent Company's share of components previously recognized in other comprehensive income to profit or loss or retained earnings, as appropriate.

New Standards, Interpretations and Amendments

The accounting policies adopted are consistent with those of the previous financial year, except for adoption of new standards effective 2023. The Group 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 consolidated financial statements of the Group.

- Amendments to Philippine Accounting Standards (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.

- 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.

- 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).



- Amendments to PAS 12, International Tax Reform - Pillar Two Model Rules

The amendments introduce a mandatory exception in PAS 12 from recognizing and disclosing deferred tax assets and liabilities related to Pillar Two income taxes.

The amendments also clarify that PAS 12 applies to income taxes arising from tax law enacted or substantively enacted to implement the Pillar Two Model Rules published by the Organization for Economic Cooperation and Development including tax law that implements qualified domestic minimum top-up taxes. Such tax legislation, and the income taxes arising from it, are referred to as 'Pillar Two legislation' and 'Pillar Two income taxes', respectively.

The temporary exception from recognition and disclosure of information about deferred taxes and the requirement to disclose the application of the exception, apply immediately and retrospectively upon adoption of the amendments in June 2023.

Meanwhile, the disclosure of the current tax expense related to Pillar Two income taxes and the disclosures in relation to periods before the legislation is effective are required for annual reporting periods beginning on or after January 1, 2023.

Standard Issued but not yet Effective

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

Effective beginning on or after January 1, 2024

- Amendments to PAS 1, Classification of Liabilities as Current or Noncurrent
- Amendments to PFRS 16, Lease Liability in a Sale and Leaseback
- Amendments to PAS 7 and PFRS 7, Disclosures: Supplier Finance Arrangements

Effective beginning on or after January 1, 2025

- PFRS 17, *Insurance Contracts*
- Amendments to PAS 21, Lack of exchangeability

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

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

The amendments may apply to future transactions of the Group.

3. Summary of Material Accounting Policy

Cash and Cash Equivalents

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

Financial Instruments - Classification and Measurement

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

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

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

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



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

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

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

These financial assets are initially recognized at fair value plus directly attributable transaction costs and subsequently measured at amortized cost using the effective interest rate (EIR) method, less any impairment in value. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees and costs that are an integral part of the EIR. The amortization is included in "Interest income" in the consolidated statement of 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 consolidated statement of comprehensive income.

As at December 31, 2023 and 2022, the Group has financial assets at amortized cost consisting of cash and cash equivalents, trade and other receivables, and PSALM deferred adjustments included as part of "Other noncurrent assets" in the consolidated statement of financial position (see Notes 5, 6, 7, 12, 28 and 29).

Financial Assets at 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.

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

As at December 31, 2023 and 2022, the Group's financial assets at FVOCI includes proprietary golf club shares recorded as part of "Other noncurrent assets" (see Notes 12 and 28).



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

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

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

Impairment of Financial Assets

The Group uses the single, forward-looking "expected loss" impairment model and recognizes ECL for the following financial assets:

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

No ECL is recognized on equity investments.

ECLs are measured in a way that reflects the following:

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

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

- *Stage 1: 12-month ECL.* For credit exposures where there have not been significant increases in credit risk since initial recognition and that are not credit-impaired upon origination, the portion of lifetime ECLs that represent the ECLs that result from default events that are possible within the 12-months after the reporting date are recognized.
- *Stage 2: Lifetime ECL - not credit-impaired.* For credit exposures where there have been significant increases in credit risk since initial recognition on an individual or collective basis but are not credit-impaired, lifetime ECLs representing the ECLs that result from all possible default events over the expected life of the financial asset are recognized.
- *Stage 3: Lifetime ECL - credit-impaired.* Financial assets are credit-impaired when one or more events that have a detrimental impact on the estimated future cash flows of those financial assets have occurred. For these credit exposures, lifetime ECLs are recognized and interest revenue is calculated by applying the credit-adjusted effective interest rate to the amortized cost of the financial asset.



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

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

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

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

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

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

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

Offsetting Financial Instruments

Financial assets and financial liabilities are offset and the net amount reported in the consolidated statement of financial position if, and only if, the Group has a legally enforceable right to offset the recognized amounts and there is an intention to settle on a net basis, or to realize the asset and settle the liability simultaneously. The Group assesses that it has a currently enforceable right of offset if the right is not contingent on a future event, and is legally enforceable in the normal course of business, event of default, and event of insolvency or bankruptcy of the Group and all of the counterparties.

Derecognition of Financial Assets and Liabilities

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

- the rights to receive cash flows from the asset have expired;
- the Group retains the right to receive cash flows from the asset.



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

Fair Value Measurement

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

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

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

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

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

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

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

- Level 1 - Quoted (unadjusted) market prices in active markets for identical assets or liabilities;
- Level 2 - Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable; and
- Level 3 - Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable.

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

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

Inventories

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



Investments in Associates

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

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

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

Property, Plant and Equipment

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

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

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

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

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



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

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

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

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

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

It is the Group’s policy to classify right-of-use assets as part of property and equipment. The Group recognizes right-of-use assets at the commencement date of the lease (i.e., the date the underlying asset is available for use). Right-of-use assets are initially measured at cost, less any accumulated depreciation. 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 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.

The right-of-use assets are depreciated on a straight-line basis over the shorter of their estimated useful life and lease term.

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



Goodwill. In a business combination, goodwill is initially measured at cost being the excess of the aggregate of the consideration transferred and the amount recognized for non-controlling interest over the net identifiable assets acquired and liabilities assumed.

After initial recognition, goodwill is measured at cost. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units (CGU) that are expected to benefit from the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units.

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

Asset Retirement Obligation (ARO)

The Group has a contractual obligation under the Department of Environment and Natural Resources (DENR). Per DENR's Environmental Compliance Certificate for Panay Diesel Power Plant, SIPC is required to maintain a fund to cover expenses for compensation of damages to life and property that may be caused by the plant's construction, operation and abandonment (see Note 16). In this regard, the Parent Company and SIPC established an obligation to recognize its estimated liability for asset retirement.

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

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

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



Equity

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

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

Treasury Stock. Own equity instruments which are reacquired are recognized at cost and deducted from equity. No gain or loss is recognized in the consolidated statement of comprehensive income on the purchase, sale, issue or cancellation of the Group's own equity instruments.

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

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

Revenue Recognition

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

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

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

Revenue

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

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

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



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

Cost and Expense Recognition

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

Leases

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

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

Lease liabilities. At the commencement date of the lease, the Group recognizes lease liabilities measured at the present value of lease payments to be made over the lease term.

In calculating the present value of lease payments, the Group uses its incremental borrowing rate at the lease commencement date because the interest rate implicit in the lease is not readily determinable. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made.

Pension Expense

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

The net defined benefit liability 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.

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

Defined benefit costs comprise the following:

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

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



Net interest on the net defined benefit liability 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. Net interest on the net defined benefit liability is recognized as expense or income in profit or loss.

Remeasurements comprising actuarial gains and losses and return on plan assets are recognized immediately in other comprehensive income in the period in which they arise. Remeasurements are not reclassified to profit or loss in subsequent periods.

Plan assets are assets that are held by a long-term employee benefit fund or qualifying insurance policies. Plan assets are not available to the creditors of the Group, nor can they be paid directly to the Group. Fair value of plan assets is based on market price information.

Income Tax

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

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

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

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

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

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

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

Related Party Transactions

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



Provisions

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

Foreign-Currency-Denominated Transactions

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

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

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

Earnings Per Share

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

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

Segment Reporting

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

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

4. Significant Accounting Judgments, Estimates and Assumptions

The Group's consolidated financial statements, prepared in compliance with PFRSs, require the Group to make judgments and estimates that affect amounts reported in the Group's consolidated financial statements and related notes. In preparing these consolidated financial statements, the Group made its best judgments and estimates of certain amounts, giving due consideration to materiality. The Group



believes that the following represent a summary of these significant accounting judgments and estimates and related impact and associated risks in the Group's consolidated financial statements.

Judgments

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

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

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

Significant judgments in revenue recognition are as follows:

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

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

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

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

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



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

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

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

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

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

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



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

Legal Contingencies. The Group is currently involved in various legal proceedings. The estimate of probable costs for the resolution of possible claims is developed in consultation with outside counsel handling the Group's defense in these matters and is based upon an analysis of potential results of litigation. No provision for probable losses arising from legal contingencies was recognized as of December 31, 2023 and 2022.

Estimates and Assumptions

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

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

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

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

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

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

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



An increase in the Group's allowance for expected credit losses of trade and other receivables, receivable from PSALM deferred adjustments and noncurrent receivable from customers arising from PSALM's deferred adjustments (see Note 29) will increase the Group's recorded expenses and decrease current and noncurrent assets. As of December 31, 2023 and 2022, allowance for expected credit losses amounted to ₱44.9 million and ₱45.7 million, respectively (see Note 7). These receivables, net of allowance for expected credit losses, amounted to ₱491.6 million and ₱666.3 million as of December 31, 2023 and 2022, respectively (see Note 7).

Estimating Allowance for Inventory Losses. The Group 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 Group made different judgments or utilized different estimates. An increase in allowance for losses would increase recorded expenses and decrease current assets.

Allowance for losses amounted to ₱1.3 million and nil as of December 31, 2023 and 2022, respectively (see Note 9). The carrying value of the inventories, net of allowance for losses, amounted to ₱399.4 million and ₱467.5 million as of December 31, 2023 and 2022, respectively (see Note 9).

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

The Group recognized depreciation expense amounting to ₱92.9 million, ₱83.2 million and ₱85.9 million in 2023, 2022 and 2021, respectively (see Note 22). As of December 31, 2023 and 2022, the aggregate net book values of property, plant and equipment amounted to ₱736.6 million and ₱734.7 million, respectively (see Note 11).

Estimating Asset Retirement Obligation (ARO). The Group has a contractual obligation under the Department of Environment and Natural Resources (DENR). Per DENR's Environmental Compliance Certificate for Panay Diesel Power Plant, SIPC is required to dismantle installed assets and restore the leased premises to their original condition at the end of the lease term (see Note 16). These estimated costs of dismantling and restoration assume third party estimates. The Group projected the estimate using inflation rates ranging from 3.9%–8.7% and discount rate of 5.1%.

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

As of December 31, 2023 and 2022, the ARO has a carrying value of ₱93.1 million and ₱94.3 million, respectively (see Note 16).



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

The Group has deferred income tax assets amounting to ₱35.5 million and ₱34.2 million as of December 31, 2023 and 2022, respectively. The Group did not recognize deferred income tax on temporary differences on provision for impairment losses and unrecognized net operating loss carryover (NOLCO) amounting to ₱0.7 million and ₱0.3 million in 2023 and 2022, respectively because management believes that these items may have no possible future deductible benefit when these will be reversed, settled or realized (see Note 25).

Estimating Impairment of Goodwill. The Group determines whether goodwill is impaired at least on an annual basis. This requires an estimation of the value in use of the cash-generating units to which the goodwill is allocated. In estimating the value in use, the Group estimated annual growth at 4%–7% in energy sold and 5%–7% escalation of operating expenses for the first five years. The Group assumed a zero growth rate beyond five years. The interest rate used to discount the net cash flows from operations is the weighted average cost of capital (WACC) of 14.97% for BLCI as of December 31, 2023 and 2022. The carrying amount of goodwill related to the investment in BLCI amounted to ₱32.5 million as of December 31, 2023 and 2022 (see Note 13).

5. Related Party Transactions

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

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

The policy applies to the Group and covers related party transactions that meet the materiality threshold of 10% of the Group's consolidated 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 Group, in the normal course of business, has significant transactions with related parties which principally consist of the following:

Associates

- Rendering of management and other services by the Parent Company to MECO, an associate, was discontinued towards the end of 2021 and no longer renewed. The management and other services income in 2021 amounting to ₱40.0 million is recorded as part of "Service income" presented under "Other income (charges)" in the consolidated statements of comprehensive income.



- Management, operation and maintenance services rendered by SIPC on ODPP arising from the assignment of rights and obligations by the Parent Company to SIPC under the “Operations, Maintenance and Management Services Agreement” with MECO until March 12, 2021. Revenue recorded related to the services amounted to ₱7.5 million and ₱5.2 million in 2022 and 2021, respectively. There are no outstanding receivables from MECO on these transactions as of December 31, 2023.
- Purchase of power by BLCI from KEPCO SPC Power Corporation (KEPCO SPC), an associate, under the Power Sales Contract between BLCI and KEPCO SPC amounting to ₱806.3 million ₱710.0 million and ₱343.7 million in 2023, 2022 and 2021, respectively (see Note 24). Outstanding amount due to KEPCO SPC on this transaction amounted to ₱89.7 million and ₱137.0 million as of December 31, 2023 and 2022, respectively, and are included as part of “Trade and other payables” in the consolidated statements of financial position (see Note 14).
- Extension of short-term, noninterest-bearing advances by the Parent Company to KEPCO SPC for the development of the 2x100 MW CFBC coal-fired Power Plant in Naga, Cebu. Outstanding amount due from KEPCO SPC amounted to ₱0.8 million as of December 31, 2023 and 2022, respectively, and are included in “Due from related parties” presented under “Trade and other receivables” in the consolidated statements of financial position (see Note 7).
- Dividends received from KEPCO SPC amounting to nil, ₱964.7 million and ₱1,026.8 million in 2023, 2022 and 2021, respectively; and from MECO amounting to ₱200 million, ₱40.0 million and ₱120.0 million in 2023, 2022 and 2021, respectively (see Note 8). The dividend receivable amounting to ₱40.0 million and nil as of December 31, 2023 and 2022, respectively, is presented under “Trade and other receivables” in the consolidated statements of financial position (see Note 7).

Affiliates Under Common Ownership

- Sale of electricity to Bohol Water Utilities, Inc. (BWUI) at the same rates charged to BLCI’s consumers amounted to ₱38.4 million, ₱29.0 million and ₱19.6 million in 2023, 2022 and 2021, respectively. Outstanding receivable from BWUI related to this transaction amounting to ₱2.1 million and ₱3.9 million as of December 31, 2023 and 2022, respectively, are included as part of “Trade and other receivables” in the consolidated statements of financial position (see Note 7).
- Rentals on office spaces from SPEC Properties, Inc. (SPEC) and SII Properties Development Corporation (SPDC) with lease terms ranging from 2–3 years amounted to ₱4.5 million in 2023 and ₱4.4 million in 2022 and 2021. Outstanding payables from these leases amounting to ₱1.1 million and nil as of December 31, 2023 and 2022, respectively, are included as part of “Trade and other receivables” in the consolidated statements of financial position (see Note 14).
- Collection charges from BWUI with outstanding balances amounting to ₱0.01 million and ₱0.04 million as of December 31, 2023 and 2022, respectively, and advances to related parties are recorded under “Trade and other receivables” in the consolidated statements of financial position (see Note 7). Advances from related parties are presented as “Trade and other payables” in the consolidated statements of financial position (see Note 14).



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

2023				
Category	Transaction	Outstanding Balance - Receivable (Payable)	Terms	Conditions
Associates				
Purchase of power from:				
KEPCO SPC	₱806,306,924	(₱89,713,882)	Interest-bearing; 91-day T-bill plus 3% per annum	Unsecured
Advances:				
KEPCO SPC	—	837,925	Due and demandable	Unsecured; No impairment
MECO	—	939	60-day; Noninterest-bearing	Unsecured; No impairment
Dividend income (see Note 8):				
MECO	199,999,778	39,999,956	Due and demandable	Unsecured; No impairment
Affiliates (Companies Under Common Ownership)				
Sales:				
BWUI	38,408,024	2,067,784	10 days from receipt of billing	Unsecured; No impairment
Lease of office space from:				
SPEC	3,651,136	(912,784)	30-day; Noninterest-bearing; 3% annual escalation	Unsecured
SPDC	801,426	(200,357)	30-day; Noninterest-bearing; 3% annual escalation	Unsecured
Collection charges:				
BWUI	130,773	79,136	₱2.60 per receipt 20 days from receipt; interest bearing 2% per month	Unsecured; No impairment
Advances:				
BWUI	257,671	502,292	60-day; Noninterest-bearing	Unsecured; No impairment
BWUI	27,507	(27,507)	60-day; Noninterest-bearing	Unsecured
SPDC	162,543	576,063	60-day; Noninterest-bearing	Unsecured; No impairment
SPEC	159,931	67,883	60-day; Noninterest-bearing	Unsecured; No impairment
SII	246,451	428,386	60-day; Noninterest-bearing	Unsecured; No impairment
SPI	81,770	59,895	60-day; Noninterest-bearing	Unsecured; No impairment
SPI	—	(5,600)	60-day; Noninterest-bearing	Unsecured
SWRI	—	223,586	60-day; Noninterest-bearing	Unsecured; No impairment
WPHC	127,622	362,765	60-day; Noninterest-bearing	Unsecured; No impairment
KV Holdings, Inc.	24,745	10,825	60-day; Noninterest-bearing	Unsecured; No impairment
KEPCO Philippines Holdings, Inc.	—	(497,043)	60-day; Noninterest-bearing	Unsecured



2022				
Category	Transaction	Outstanding Balance - Receivable (Payable)	Terms	Conditions
Associates				
Purchase of power from: KEPCO SPC	₱709,983,001	(₱137,031,554)	Interest-bearing; 91-day T-bill plus 3% per annum	Unsecured
Advances:				
KEPCO SPC	—	763,112	Due and demandable	Unsecured; No impairment
MECO	—	939	60-day; Noninterest-bearing	Unsecured; No impairment
Dividend income (see Note 8):				
KEPCO SPC	964,673,562	—	Due and demandable	Unsecured; No impairment
MECO	39,999,956	—	Due and demandable	Unsecured; No impairment
Affiliates (Companies Under Common Ownership)				
Sales:				
BWUI	28,966,817	3,856,333	10 days from receipt of billing	Unsecured; No impairment
Lease of office space from:				
SPEC	3,651,136	—	30-day; Noninterest-bearing; 3% annual escalation	Unsecured
SPDC	778,084	—	30-day; Noninterest-bearing; 3% annual escalation	Unsecured
Collection charges:				
BWUI	114,006	41,717	₱1.53 per receipt 20 days from receipt; interest bearing 2% per month	Unsecured; No impairment
Advances:				
BWUI	95,298	176,574	60-day; Noninterest-bearing	Unsecured; No impairment
SPDC	90,729	507,410	60-day; Noninterest-bearing	Unsecured; No impairment
SPEC	101,810	304,756	60-day; Noninterest-bearing	Unsecured; No impairment
SII	42,199	181,935	60-day; Noninterest-bearing	Unsecured; No impairment
SPI	44,041	171,516	60-day; Noninterest-bearing	Unsecured; No impairment
SWRI	—	223,586	60-day; Noninterest-bearing	Unsecured; No impairment
WPHC	108,565	235,143	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



2021				
Category	Transaction	Outstanding Balance - Receivable (Payable)	Terms	Conditions
Associates				
Sales:				
MECO	₱5,216,459	₱–	30-day; Noninterest-bearing	Unsecured; No impairment
Technical services rendered to:				
MECO	40,002,385	–	60-day; Noninterest-bearing	Unsecured
Purchase of power from:				
KEPCO SPC	343,669,158	(48,371,310)	Interest-bearing; 91-day T-bill plus 3% per annum	Unsecured
Advances:				
KEPCO SPC	–	763,112	Due and demandable	Unsecured; No impairment
MECO	939	939	60-day; Noninterest-bearing	Unsecured; No impairment
Dividend income (see Note 8):				
KEPCO SPC	1,026,799,946	–	Due and demandable	Unsecured; No impairment
MECO	119,999,866	79,999,911	Due and demandable	Unsecured; No impairment
Affiliates (Companies Under Common Ownership)				
Sales:				
BWUI	19,566,742	6,668,944	10 days from receipt of billing	Unsecured; No impairment
Lease of office space from:				
SPEC	3,651,136	(2,738,352)	30-day; Noninterest-bearing; 3% annual escalation	Unsecured
SPDC	765,946	(572,066)	30-day; Noninterest-bearing; 3% annual escalation	Unsecured
Collection charges:				
BWUI	138,573	26,522	₱1.53 per receipt20 days from receipt; interest bearing 2% per month	Unsecured; No impairment
Advances to (from):				
BWUI	146,762	236,819	60-day; Noninterest-bearing	Unsecured; No impairment
SPDC	94,042	416,681	60-day; Noninterest-bearing	Unsecured; No impairment
SPDC	294,551	(509,711)	60-day; Noninterest-bearing	Unsecured
SPEC	70,197	202,945	60-day; Noninterest-bearing	Unsecured; No impairment
SII	51,184	139,736	60-day; Noninterest-bearing	Unsecured; No impairment
SPI	45,500	127,475	60-day; Noninterest-bearing	Unsecured; No impairment
SWRI	30,041	223,586	60-day; Noninterest-bearing	Unsecured; No impairment
WPHC	29,041	126,578	60-day; Noninterest-bearing	Unsecured; No impairment
KV Holdings, Inc.	8,564	26,111	60-day; Noninterest-bearing	Unsecured; No impairment
KEPCO Philippines Holdings, Inc.	–	(497,043)	60-day; Noninterest-bearing	Unsecured

These transactions with related parties are generally settled in cash.



Compensation and Benefits of Key Management Personnel

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

	2023	2022	2021
Short-term benefits	₱49,946,045	₱50,474,435	₱43,171,364
Post-employment benefits	964,964	762,626	636,490
	₱50,911,009	₱51,237,061	₱43,807,854

6. Cash and Cash Equivalents

	2023	2022
Cash on hand and in banks	₱798,410,969	₱1,819,002,343
Short-term investments	3,944,632,065	2,212,419,250
	₱4,743,043,034	₱4,031,421,593

Cash in banks earn interest at the respective bank deposit rates. Short-term investments are made for varying periods of up to three months or less, depending on the immediate cash requirements of the Group, and earn interest at the prevailing short-term investment rates. Total interest income amounted to ₱160.5 million, ₱27.8 million and ₱34.6 million in 2023, 2022 and 2021, respectively.

7. Trade and Other Receivables

	2023	2022
Receivable from customers (net of allowance for impairment losses of ₱44.9 million and ₱45.7 million as of 2023 and 2022, respectively) (see Note 5)	₱457,828,766	₱593,891,475
Dividend receivable (Note 8)	39,999,956	—
Current portion of PSALM deferred adjustments (see Note 29)	31,892,013	36,798,477
Interest receivable	17,229,397	5,589,472
Advances to officers and employees	13,909,273	24,426,406
Due from related parties	3,149,696	2,689,294
Others	85,098,556	32,439,934
	₱649,107,657	₱695,835,058

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

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

Other receivables mainly consist of universal charges receivable from customers that are noninterest-bearing, insurance claims and accrued interest receivables from short-term investments. Universal charges are amounts passed on and collected from customers on a monthly basis. These are charges imposed to recover the stranded debts, stranded contract costs of National Power Corporation (“NPC”) and stranded contract costs of eligible contracts of distribution. The Company remits collections



monthly to PSALM who administers the fund generated from universal charges and disburses the said funds in accordance with the intended purposes.

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

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

	2023	2022
At January 1	₱45,655,447	₱48,283,301
Provision for impairment losses (see Note 20)	1,556,344	2,007,340
Reversals	(2,317,533)	(4,635,194)
At December 31	₱44,894,258	₱45,655,447

8. Investments in Associates

	2023	2022
Acquisition cost	₱2,852,565,368	₱2,852,565,368
Accumulated equity in net earnings and other comprehensive income:		
At January 1	2,579,888,296	2,652,678,229
Equity in net earnings	587,156,364	925,354,304
Share in remeasurement of employee benefits of associates	(3,858,824)	6,529,281
Dividend	(199,999,777)	(1,004,673,518)
At December 31	2,963,186,059	2,579,888,296
	₱5,815,751,427	₱5,432,453,664

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

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

KEPCO SPC

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



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

	2023	2022	2021
Current assets	₱5,025,272,862	₱3,648,061,247	₱3,295,642,541
Noncurrent assets	7,431,058,522	8,134,819,864	8,767,282,343
Current liabilities	1,018,887,600	1,079,104,218	849,143,657
Noncurrent liabilities	177,871,046	169,135,312	170,367,207
Equity	11,259,572,738	10,534,641,581	11,043,414,020
Revenue	9,491,824,536	10,685,730,574	7,401,904,359
Gross profit	1,612,378,636	2,954,375,631	2,789,999,501
Net income	730,593,462	1,895,967,997	1,781,078,822
Other comprehensive income (loss)	(5,662,304)	6,943,469	3,649,551
Total comprehensive income	724,931,158	1,902,911,466	1,784,728,373
Group's share in net income	292,237,385	758,387,199	712,431,529
Carrying amount of the investment	4,503,829,095	4,213,856,632	4,417,365,608
Dividends received from KEPCO SPC	—	964,673,562	1,026,799,946

KEPCO SPC declared and paid cash dividends to the Parent Company amounting to nil, ₱964.7 million and ₱1,026.8 million in 2023, 2022 and 2021, respectively (see Note 5).

As of December 31, 2023, 2022 and 2021, the Group's share in the net assets of KEPCO SPC approximates the carrying value of its investment amounting to ₱4,503.8 million, ₱4,213.9 million and ₱4,417.4 million, respectively.

MECO

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

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

	2023	2022	2021
Current assets	₱3,420,169,230	₱3,272,422,195	₱3,003,015,589
Noncurrent assets	3,822,420,452	3,737,587,700	3,643,168,379
Current liabilities	938,870,145	1,056,351,577	1,107,062,700
Noncurrent liabilities	2,647,655,706	2,506,399,191	2,392,848,077
Equity	3,656,063,831	3,447,259,127	3,146,273,191
Revaluation increment on property, plant and equipment, and others (adjusted at consolidated level following the Group's policy of cost model)	376,509,006	401,016,994	426,828,555
Revenue	7,206,586,540	7,524,368,045	5,738,323,076
Gross profit	481,187,003	214,305,875	375,379,894

(Forward)



	2023	2022	2021
Net income	₱704,620,130	₱383,002,350	₱310,601,812
Other comprehensive income (loss)	(3,984,755)	9,379,733	32,020,078
Net income after adjustment of depreciation on revaluation increment	737,297,447	417,417,764	340,635,858
Group's share in net income after adjustment of depreciation on revaluation increment and others	281,848,052	166,967,106	155,418,367
Carrying amount of the investment	1,311,822,330	1,218,496,853	1,087,777,988
Dividends received from MECO	199,999,778	39,999,956	119,999,867

MECO declared cash dividends to the Parent Company amounting to ₱200.0 million, ₱40.0 million and ₱120.0 million in 2023, 2022 and 2021, respectively, and paid ₱160.0 million, ₱40.0 million and ₱120.0 million in 2023, 2022 and 2021 (see Note 5).

As of December 31, 2023, 2022 and 2021, the Group's share in the net assets of MECO approximates the carrying value of its investment amounting to ₱1,299.7 million, ₱1,218.5 million and ₱1,087.8 million, respectively.

SWRI

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

9. Inventories

	2023	2022
On hand - at cost:		
Fuel	₱168,891,275	₱208,404,577
Materials and supplies	229,229,732	256,874,983
In transit - at cost	1,272,659	2,267,821
	₱399,393,666	₱467,547,381

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

Inventories charged to "Cost of operations" amounted to ₱1,880.3 million, ₱1,817.7 million and ₱799.7 million in 2023, 2022 and 2021, respectively, in the consolidated statements of comprehensive income (see Note 19).



10. Prepayments and Other Current Assets

	2023	2022
Input VAT	₱40,023,625	₱51,525,280
Prepaid income tax	18,752,038	25,206,340
Prepaid insurance	7,946,577	7,370,515
Prepaid real property tax	7,560,461	7,429,242
Refundable deposits	5,547,081	5,600,081
Deferred input VAT	1,197,300	954,484
Prepaid rent	304,738	279,705
Others	2,377,991	2,566,020
	₱83,709,811	₱100,931,667



11. Property, Plant, and Equipment

2023										
	Distribution Lines, Poles and Fixtures	Power Transformers, Switches and Devices	Plant Machinery and Equipment	Motor Vehicles	Structures	Furniture and Office Equipment	Land	Construction in Progress	Right-of-use Assets (see Note 30)	Total
Cost										
At January 1	₱247,601,145	₱220,979,711	₱1,061,232,689	₱43,049,773	₱66,485,459	₱32,805,024	₱87,472,343	₱46,454,500	₱17,903,464	₱1,823,984,108
Additions	13,435,092	17,858,470	8,935,206	12,365,267	1,069,995	27,676,240	279,675	13,157,790	—	94,777,735
Reclassifications	—	51,629,346	—	—	—	—	—	(51,629,346)	—	—
At December 31	261,036,237	290,467,527	1,070,167,895	55,415,040	67,555,454	60,481,264	87,752,018	7,982,944	17,903,464	1,918,761,843
Accumulated Depreciation and Impairment										
At January 1	155,058,220	146,405,824	669,515,240	33,908,415	52,240,123	29,532,119	—	—	2,606,305	1,089,266,246
Depreciation (see Note 22)	13,084,813	12,628,616	51,525,344	5,103,498	2,351,317	5,341,387	—	—	2,830,008	92,864,983
At December 31	168,143,033	159,034,440	721,040,584	39,011,913	54,591,440	34,873,506	—	—	5,436,313	1,182,131,229
Net Book Value	₱92,893,204	₱131,433,087	₱349,127,311	₱16,403,127	₱12,964,014	₱25,607,758	₱87,752,018	₱7,982,944	₱12,467,151	₱736,630,614

2022										
	Distribution Lines, Poles and Fixtures	Power Transformers, Switches and Devices	Plant Machinery and Equipment	Motor Vehicles	Structures	Furniture and Office Equipment	Land	Construction in Progress	Right-of-use Assets (see Note 30)	Total
Cost										
At January 1	₱233,500,836	₱213,554,305	₱1,061,657,315	₱42,932,431	₱66,485,459	₱32,000,351	₱87,472,343	₱9,230,467	₱5,651,294	₱1,752,484,801
Additions	14,100,309	7,425,406	14,063,017	117,342	—	944,244	—	37,224,033	12,252,170	86,126,521
Retirements	—	—	(14,487,643)	—	—	(139,571)	—	—	—	(14,627,214)
At December 31	247,601,145	220,979,711	1,061,232,689	43,049,773	66,485,459	32,805,024	87,472,343	46,454,500	17,903,464	1,823,984,108
Accumulated Depreciation and Impairment										
At January 1	144,136,141	135,435,508	632,940,985	29,617,683	49,820,641	27,732,125	—	—	1,035,816	1,020,718,899
Depreciation (see Note 22)	10,922,079	10,970,316	51,061,898	4,290,732	2,419,482	1,939,565	—	—	1,570,489	83,174,561
Retirements	—	—	(14,487,643)	—	—	(139,571)	—	—	—	(14,627,214)
At December 31	155,058,220	146,405,824	669,515,240	33,908,415	52,240,123	29,532,119	—	—	2,606,305	1,089,266,246
Net Book Value	₱92,542,925	₱74,573,887	₱391,717,449	₱9,141,358	₱14,245,336	₱3,272,905	₱87,472,343	₱46,454,500	₱15,297,159	₱734,717,862

The Group has no purchase commitments as of December 31, 2023 and 2022.



12. Other Noncurrent Assets and Intangible Assets

Other noncurrent assets

	2023	2022
Investment in proprietary club share	₱15,000,000	₱13,000,000
PSALM deferred adjustments (see Notes 7 and 29)	1,839,924	35,571,861
Advances to suppliers and contractors	2,803,719	2,789,616
Others	13,727,928	23,427,732
	₱33,371,571	₱74,789,209

Current portion of PSALM deferred adjustments amounting to ₱31.9 and ₱36.8 million is presented under “Trade and other receivables” in the consolidated statements of financial position as of December 31, 2023 and 2022 (see Note 7).

In 2023, 2022 and 2021, the Group recognized “Unrealized valuation gain on financial asset at FVOCI” amounting to ₱2.0 million, ₱5.0 million and ₱0.6 million, respectively, in the consolidated statements of comprehensive income for its investment in proprietary club shares.

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

Intangible assets

	2023	2022
Software costs	₱1,216,504	₱1,824,755
Franchise	954,869	1,432,302
	₱2,171,373	₱3,257,057

The following table shows the movement of software costs:

	2023	2022
Acquisition Cost	₱6,082,514	₱6,082,514
Accumulated Amortization		
At January 1	4,257,759	3,649,508
Amortization (see Notes 20 and 22)	608,251	608,251
At December 31	4,866,010	4,257,759
Net Book Value	₱1,216,504	₱1,824,755

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

	2023	2022
Acquisition Cost	₱11,935,833	₱11,935,833
Accumulated Amortization		
At January 1	10,503,531	10,026,098
Amortization (see Notes 20 and 22)	477,433	477,433
At December 31	10,980,964	10,503,531
Net Book Value	₱954,869	₱1,432,302



13. Goodwill

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

Carrying amount of goodwill related to BLCI amounted to ₱32.5 million as of December 31, 2023 and 2022. The goodwill is attributed to the expected synergies and other benefits from combining the assets of the distribution utility with those of the Group.

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

- Interest rate used to discount the net cash flows from operations is BLCI's WACC of 14.97% as of December 31, 2023 and 2022 using the capital asset pricing model.
- Energy sold is projected at 4%–7% annual growth based on the actual average for 2023 and 2022, depending on the customer category.
- Operating expenses are projected to increase from 5% to 7% depending on the nature of expenses.
- The computation of terminal value assumes no growth in projected cash flows beyond five years.

Based on the impairment testing, management has determined that there is no impairment on goodwill in 2023 and 2022.

Sensitivity to Changes in Assumptions

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

14. Trade and Other Payables

	2023	2022
Trade (see Note 24)	₱394,559,067	₱520,165,764
Nontrade (see Note 29)	420,994,308	197,864,151
Accrued expenses (see Note 15)	41,171,141	58,492,314
Due to related parties (see Note 5)	530,150	502,642
	₱857,254,666	₱777,024,871

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

Nontrade payables include accrual for deferred output VAT of ₱148.9 million and ₱138.7 million as of December 31, 2023 and 2022, respectively; current portion of PSALM deferred adjustments of ₱1.8 million and ₱31.8 million as of December 31, 2023 and 2022, respectively (see Note 29), dividends payable amounting to ₱119.6 million and ₱4.3 million as of December 31, 2023 and 2022, respectively, and various accounts with nontrade suppliers and contractors including government payables amounting to ₱28.0 million and ₱12.2 million as of December 31, 2023 and 2022, respectively.

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



15. Customers' Deposits

	2023	2022
Bill deposits	₱123,764,396	₱121,794,122
Material deposits	70,149,998	69,784,927
	₱193,914,394	₱191,579,049

Bill Deposits

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

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

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

Material Deposits

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

Interest on Bill Deposits

The implementing guidelines of the Magna Carta provide that the interest rate then on meter deposits shall be at 6% for contracts of service entered into prior to the effectivity of the then Energy Regulatory Board (ERB) Resolution No. 95-21 issued on August 3, 1995. The ERB Resolution No. 95-21 was issued adopting a 10% interest on customers' deposits. Pursuant to the Magna Carta as amended, bill deposits shall earn interest equivalent to the peso savings account interest rate of Land Bank of the Philippines or other government banks subject to the approval of the ERC. In the case of non-residential customers, the DSOAR, as amended provides that BLCI shall pay interest on bill deposits at the rate equivalent to the peso savings account interest rate of Land Bank of the Philippines or other government banks subject to the approval of the ERC. Interest expense on bill deposits amounting to ₱0.06 million, ₱0.07 million and ₱0.1 million in 2023, 2022 and 2021, respectively, are presented as part of "Interest expense" in the consolidated statements of comprehensive income. Outstanding interest expense accrued on bill deposits amounted to ₱2.8 million as of December 31, 2023 and 2022 and are presented as part of "Accrued expenses" under "Trade and other payables" in the consolidated statements of financial position (see Note 14).



16. Asset Retirement Obligation

The Parent Company's subsidiary, SIPC, has obligations under the Environmental Compliance Certificate issued by the Department of Environment and Natural Resources to protect/enhance the environment and mitigate the plant's adverse impact on the environment and on the community's health and welfare by making available a fund to cover expenses for compensation of damages to life and property that may be caused by the plant's construction, operation and abandonment. In this regard, SIPC established an obligation to recognize its estimated liability for asset retirement.

The movement of the asset retirement obligation follows:

	2023	2022
At January 1	₱94,302,870	₱89,721,893
Accretion of interest	4,814,870	4,580,977
Changes in ARO	(6,048,263)	—
At December 31	₱93,069,477	₱94,302,870

As of December 31, 2023 and 2022, the ARO recognized by the Group pertains only to PDPP of SIPC.

As of December 31, 2023 and 2022, estimates for SIPC's ARO are projected using inflation rates ranging from 3.9%–8.7% and discounted using a risk-free rate of 5.1%.

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

17. Pension Liabilities

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

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

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

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

	2023	2022	2021
Current service cost	₱7,780,211	₱6,212,724	₱6,855,450
Interest cost on benefit obligation	1,945,844	1,639,166	1,431,738
Past service cost	80,846	—	—
	₱9,806,901	₱7,851,890	₱8,287,188



Remeasurement effects recognized under “Other comprehensive income” in the consolidated statements of comprehensive income amounted to ₱5.2 million and ₱3.6 million in 2022 and 2021, respectively.

	2023	2022
Present value of defined benefit obligation	₱62,331,144	₱70,945,179
Fair value of plan assets	(25,164,733)	(27,213,457)
	₱37,166,411	₱43,731,722

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

	2023	2022
At January 1	₱70,945,179	₱62,159,515
Current service cost	7,780,211	6,212,724
Interest cost	3,202,595	3,027,620
Benefits paid	(13,284,933)	(454,680)
Benefits paid from subsidiaries’ operating funds	(2,684,288)	—
Remeasurement loss (gain) due to:		
Experience adjustments	2,489,671	—
Changes in financial assumptions	(6,198,137)	—
Past service cost	80,846	—
At December 31	₱62,331,144	₱70,945,179

Changes in the fair value of plan assets follow:

	2023	2022
At January 1	₱27,213,457	₱27,385,679
Gain (loss) on return on plan assets	1,545,084	(3,352,674)
Interest income included in net interest cost	1,256,751	1,388,454
Contribution to the retirement fund	8,434,374	2,246,678
Benefits paid	(13,284,933)	(454,680)
At December 31	₱25,164,733	₱27,213,457

Net pension liabilities follow:

	2023	2022
Present value of defined benefit obligation	₱62,331,144	₱70,945,179
Fair value of plan assets	(25,164,733)	(27,213,457)
	₱37,166,411	₱43,731,722

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

	2023	2022
At January 1	₱43,731,722	₱34,773,836
Pension expense	9,806,901	7,851,890
Remeasurement loss (gain)	(5,253,550)	3,352,674
Benefits paid from subsidiaries’ operating funds	(2,684,288)	—
Contribution to the retirement fund	(8,434,374)	(2,246,678)
At December 31	₱37,166,411	₱43,731,722



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

	2023	2022
Cash and cash equivalents	₱4,731,855	₱11,417,171
Investments in government securities	20,327,953	15,718,407
Accrued interest income and others	199,883	116,369
Total assets	25,259,691	27,251,947
Total liabilities	94,958	38,490
Fair value of plan assets	₱25,164,733	₱27,213,457

The Parent Company expects to contribute to the retirement fund in 2024.

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

	2023	2022
Discount rate	6.10%–6.13%	5.07–5.11%
Future salary increase	5%	5.00–6.00%

The sensitivity analysis below has been determined based on reasonably possible changes of each significant assumption on the present value of the defined benefit obligation of the most recent actuarial valuation report as of December 31, 2023 and 2022 assuming all other assumptions were held constant:

		Present Value Change of Defined Benefit Obligation	
		2023	2022
Discount rate	Increase (Decrease)		
	+100 basis points	(₱3,521,508)	(₱3,508,771)
	–100 basis points	4,130,472	4,411,087
Future salary increase rate	+100 basis points	₱4,380,369	₱4,933,839
	–100 basis points	(3,800,421)	(4,115,290)

The weighted average duration of the benefit payments ranges from 12.0 to 15.20 and 15.20 to 20.75 years as of December 31, 2023 and 2022. 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	2023	2022
Less than one year	₱25,727,665	₱9,500,355
One year to less than five years	19,949,274	16,423,496
Five years to less than 10 years	21,830,966	21,125,715
10 years to less than 15 years	35,239,816	20,380,392
15 years to less than 20 years	44,737,961	31,104,480
20 years and above	121,755,667	90,890,770



18. Equity

Capital Stock

There were no changes in the Parent Company's authorized, issued and outstanding common shares as of December 31, 2023 and 2022:

	2023		2022	
	No. of shares	Amount	No. of shares	Amount
Capital stock - ₱1 par value				
Authorized	2,000,000,000	₱2,000,000,000	2,000,000,000	₱2,000,000,000
Issued and outstanding:				
At January 1 and December 31	1,569,491,900	₱1,569,491,900	1,569,491,900	₱1,569,491,900
Treasury shares	(72,940,097)	(131,008,174)	(72,940,097)	(131,008,174)
	1,496,551,803	₱1,438,483,726	1,496,551,803	₱1,438,483,726

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, 2023, the Parent Company has 757 stockholders including 51 depository participants counted as one stockholder each.

As of December 31, 2023 and 2022, the Parent Company is compliant with the Minimum Public Ownership requirement of the PSE for listed entities.

Retained Earnings

Retained earnings are also restricted for dividend declaration to the extent of the accumulated equity in net earnings of associates amounting to ₱3.0 billion and ₱2.6 billion as of December 31, 2023 and 2022, respectively, until actually declared as dividends by the associates. Retained earnings is further restricted for dividend declaration to the extent of the acquisition price of the treasury shares amounting to ₱131.0 million as of December 31, 2023 and 2022.

Appropriation

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

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

On November 25, 2019, the Board of Directors of the Parent Company approved the following: (i) appropriation of retained earnings amounting to ₱1.3 billion for the construction and operation of new generating power plant capacity to supply 39 MW full demand requirements in the mainland of Occidental Mindoro starting May 25, 2022, (ii) appropriation of retained earnings amounting to



₱1.0 billion to invest in SPC Island Power Corporation for the 44.2 MW expansion of Bohol Diesel Power Plant in the years 2020–2021, and (iii) confirmation of the 2018 appropriation of retained earnings amounting to ₱500.0 million for 1Bohol Power Project that will serve the long-term power requirements of three distribution utilities in Bohol starting December 26, 2023.

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

On July, 26, 2023, the Board of Directors of the Parent Company approved the following: (i) reversal 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, and (ii) the reversal of ₱500.0 million appropriation for One Bohol Power Project that will serve the long-term power requirements of the three distribution utilities in Bohol starting December 26, 2023, the contract of which was already awarded to Energy Development Corporation.

Dividends

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

Declared By	Date of Declaration	Record Date	Amount	
			Gross (in millions)	Per Share
2023				
SPC	July 26, 2023	August 9, 2023	₱299.3	₱0.20
BLCI	November 30, 2023	December 15, 2023	15.0	0.20
2022				
SPC	May 31, 2022	June 15, 2022	₱299.3	₱0.20
SLCI	November 16, 2022	November 18, 2022	12.6	0.40
SECI	November 16, 2022	November 18, 2022	14.2	0.75
BLCI	December 7, 2022	December 22, 2022	11.3	0.15
SIPC	December 12, 2022	December 15, 2022	190.0	3.80 (common)
2021				
SPC	April 7, 2021	April 23, 2021	₱598.6	₱0.40
	May 28, 2021	June 14, 2021	897.9	0.60
	December 9, 2021	December 23, 2021	823.1	0.55
SIPC	December 9, 2021	December 15, 2021	350.0	14.0 (common)
BLCI	June 2, 2021	June 7, 2021	11.3	0.15
	December 1, 2021	December 7, 2021	11.3	0.15



Non-controlling Interests

As of December 31, 2023 and 2022, the Group has 53.66% direct and indirect ownership interest in BLCI which is primarily engaged in the supply and distribution of electricity in the area presently comprised by Tagbilaran City, Bohol. The summarized financial information of BLCI as of December 31 is provided below:

	2023	2022
Statements of financial position:		
Current assets	₱485,501,080	₱481,930,317
Noncurrent assets	278,358,312	304,946,293
Current liabilities	263,613,220	326,291,933
Noncurrent liabilities	204,897,425	237,361,170
Equity	295,348,747	223,223,507
Statements of comprehensive income:		
Revenue	1,678,615,101	1,354,150,549
Costs and expenses	1,592,057,631	1,352,813,155
Net income	86,890,665	19,109,806
Total comprehensive income	87,041,730	19,786,188
Net income attributable to non-controlling interest	40,226,436	9,288,398
Total comprehensive income attributable to non-controlling interest	40,335,138	9,168,920
Accumulated non-controlling interest	136,864,609	103,441,773

As of December 31, 2023 and 2022, total non-controlling interests amounted to ₱166.9 million and ₱132.5 million, respectively.

Capital Management

The Group manages its capital structure and makes adjustments to it in the light of changes in economic conditions. To maintain or adjust the capital structure, the Group may adjust the dividend payment to stockholders, return capital to stockholders or issue new shares. No changes were made in the objectives, policies or processes during the years ended December 31, 2023 and 2022.

The Group considers its total equity attributable to equity holders of the Parent, excluding other comprehensive income (loss), as its core capital and is not subject to any externally imposed capital requirements. As of December 31, 2023 and 2022, the Group's core capital amounted as follows:

	2023	2022
Capital stock	₱1,569,491,900	₱1,569,491,900
Additional paid-in capital	86,810,752	86,810,752
Retained earnings	9,598,002,269	8,727,417,031
Treasury stock	(131,008,174)	(131,008,174)
	₱11,123,296,747	₱10,252,711,509



19. Cost of Operations

	2023	2022	2021
Fuel, lubricants and chemicals (see Note 9)	₱1,821,909,295	₱1,782,032,700	₱758,703,944
Purchased power (see Notes 5 and 24)	1,525,036,459	1,210,261,754	908,258,790
Personnel costs (see Note 21)	130,418,606	125,654,648	119,083,444
Depreciation and amortization (see Note 22)	84,950,273	79,616,613	77,780,037
Spares, materials and supplies (see Note 9)	58,424,571	35,669,642	41,023,244
Repairs and maintenance	22,346,971	21,664,090	13,085,748
Others (see Note 24)	41,577,392	35,273,474	34,556,607
	₱3,684,663,567	₱3,290,172,921	₱1,952,491,814

20. General and Administrative Expenses

	2023	2022	2021
Personnel costs (see Note 21)	₱74,322,274	₱61,867,788	₱57,820,098
Business development	58,188,013	63,360,648	21,891,882
Shared expenses	26,597,373	15,349,154	16,799,664
Taxes, licenses and regulatory charges	23,092,217	11,424,430	11,634,226
Professional fees	22,849,376	17,559,238	15,190,694
Directors' fees	17,145,468	17,604,926	16,073,792
Insurance	16,232,555	15,050,879	14,468,428
Depreciation and amortization (see Note 22)	9,000,394	4,643,632	9,194,380
Repairs and maintenance	6,549,105	4,194,748	3,591,457
Rentals (see Notes 5, 29 and 30)	6,282,648	6,627,758	3,157,626
Transportation and travel	4,883,095	3,868,651	1,919,563
Communications	4,099,712	3,284,473	3,612,217
Power and water	4,059,249	3,640,408	2,773,220
Janitorial and security	2,809,300	2,695,588	2,790,972
Office supplies	2,349,853	2,330,079	2,188,068
Association dues	2,103,820	1,399,213	2,078,264
Provisions (see Notes 7, 8 and 11)	1,814,379	2,007,340	9,829,183
Corporate social responsibility	1,392,120	2,069,438	2,017,035
Trainings and seminars	764,859	467,597	362,517
Supervision and regulation	750,000	750,000	750,000
Entertainment, amusement and recreation	611,496	512,373	162,806
Freight and handling	209,971	242,082	282,170
Others	10,216,407	8,357,817	7,155,406
	₱296,323,684	₱249,308,260	₱205,743,668

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



21. Personnel Costs

	2023	2022	2021
Salaries and wages	₱137,401,934	₱128,128,156	₱118,287,194
Retirement (see Note 17)	9,806,901	7,851,890	8,287,188
Other employee benefits	57,532,045	51,542,390	50,329,160
	₱204,740,880	₱187,522,436	₱176,903,542

22. Depreciation and Amortization

	2023	2022	2021
Depreciation of property, plant and equipment (see Notes 11 and 30):			
Cost of operations (see Note 19)	₱84,472,840	₱79,139,180	₱77,302,604
General and administrative (see Note 20)	8,392,143	4,035,381	8,586,129
	92,864,983	83,174,561	85,888,733
Amortization of franchise:			
Cost of operations (see Note 19)	477,433	477,433	477,433
Amortization of software costs:			
General and administrative (see Note 20)	608,251	608,251	608,251
	₱93,950,667	₱84,260,245	₱86,974,417

23. Unbundling of Rates and VAT Implementation

Unbundling of Electricity Bill

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

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



Unbundled Bill Component	Mechanism
Inter-class Subsidy	<ul style="list-style-type: none"> Guidelines for a “True-Up” Mechanism of the Over or Under Recovery in the Implementation of Inter-class Cross Subsidy Removal by DU
Lifeline Rate/Subsidy	<ul style="list-style-type: none"> Guidelines for the Calculation of the Over or Under Recovery in the Implementation of Lifeline Rates by DU

For the years ended December 31, 2023, 2022 and 2021, BLCI’s revenue from distribution of power amounted to ₱1,678.6 million, ₱1,354.2 million and ₱973.7 million, respectively (see Note 26).

Implementation of VAT

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

24. Significant Contracts

The Group has the following significant contracts:

Parent Company

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

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

SIPC

SIPC and NGCP entered into a Connection Agreement on August 28, 2010, in order for SIPC’s generation facilities to remain connected to the transmission system of the NGCP and to continue to avail of the transmission services. This agreement is subject to the terms and conditions for the connection of the generation facility to the transmission system pursuant to the revised rules, terms and conditions for the provision of Open Access Transmission Service. Total transmission charges, lodged in “Others” under “Cost of operations” amounted to ₱8.7 million, ₱5.7 million and ₱5.8 million in 2023, 2022 and 2021, respectively (see Note 19).

On April 18, 2013, SIPC entered into an ASPA with NGCP with provisional approval granted by the ERC on November 11, 2013. The ASPA, however, was made effective only on February 25, 2014 due to the impact of super typhoon Yolanda in November 2013. SIPC and NGCP executed the ASPA for the supply of contingency reserve, dispatchable reserve, reactive power support, and black start service from the Panay and Bohol Diesel Power Plants for a period of five (5) years under a non-firm



arrangement. The agreement expired on February 25, 2019. Due to the necessity of extending the services of providing the same ancillary services, SIPC and NGCP have agreed per letter dated November 26, 2018 to extend the ASPA until a new ASPA for each power plant is approved by the ERC.

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

On July 3, 2019 and July 25, 2019, SIPC entered into an ASPA with NGCP for the supply of dispatchable reserve and contingency reserve under firm and non-firm arrangements from SIPC's Panay Diesel Power Plant. The term of this agreement is for a period of five (5) years commencing upon receipt of a final approval, or in the absence thereof, a provisional approval by the ERC. As of December 31, 2023, the ASPA is still for approval by ERC. As of December 31, 2021, all of SIPC's power supply contracts for the supply of peaking power requirements have expired. Revenue generated from the PSC in 2021 that expired amounted to ₱6.8 million.

In December 2021, due to the major damages brought by Typhoon Odette on the power supply in Bohol, the Company entered in Emergency Power Sales Agreement with local distribution utilities to provide emergency power to the Province of Bohol until the transmission lines connecting the province to the Visayas power grid was completed in February 2022. Revenues generated from the EPSA in 2022 amounted to ₱75.5 million.

BLCI

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

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

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

Total power purchases from KEPCO SPC, NGCP, NPCs and PEMC/IEMOP, net of discounts, amounted to ₱1,489.4 million, ₱1,254.9 million and ₱863.4 million in 2023, 2022 and 2021, respectively, and presented as "Purchased power" under "Cost of operations" in the consolidated statements of comprehensive income (see Note 19). The outstanding payables to KEPCO SPC, NGCP and PEMC/IEMOP included under "Trade and other payables" (see Note 14), on purchased power amounted to ₱106.8 million and ₱174.0 million as of December 31, 2023 and 2022, respectively.



25. Income Tax

	2023	2022	2021
Current	₱143,586,887	₱93,336,400	₱77,005,217
Deferred	(2,233,807)	14,770,731	4,620,497
	₱141,353,080	₱108,107,131	₱81,625,714

The reconciliation between the amounts of provision for income tax computed at the statutory tax rates of 25% and 20% in 2023, 2022 and 2021 to provision for income tax in the consolidated statements of comprehensive income for the years ended December 31 follows:

	2023	2022	2021
Income before income tax	₱1,352,520,546	₱1,394,889,461	₱1,279,338,784
Provision for income tax at respective income tax rates	₱338,152,528	₱348,722,366	₱319,592,759
Adjustments to income tax resulting from:			
Equity in net earnings of associates	(146,789,091)	(231,338,576)	(216,962,474)
Net unrealized foreign exchange loss (gain)	(2,100,467)	17,014,161	(409,124)
Impact of optional standard deduction (OSD)	8,429,383	(200,265)	(13,026,245)
Interest income already subjected to final tax	(39,984,212)	(6,949,552)	(8,608,745)
Others	(16,355,061)	(19,141,003)	1,039,543
	₱141,353,080	₱108,107,131	₱81,625,714

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

	2023	2022
Deferred income tax assets on:		
Asset retirement obligation	₱23,267,369	₱23,575,717
Right-of-use asset	7,383,274	2,846,922
Pension liabilities	2,244,087	7,474,725
Unrealized foreign exchange loss	4,370,626	330,425
	₱35,457,044	₱34,227,789
Deferred income tax liabilities on:		
Excess of fair value over acquisition cost - property, plant and equipment and inventory	₱415,702	₱569,015
Lease liability	1,433,924	2,756,738
Unrealized foreign exchange gain	17,876,113	17,326,346
	₱19,725,739	₱20,652,099

The Group did not recognize deferred income tax on temporary differences on provision for impairment losses and net operating loss carryover (NOLCO) amounting to ₱0.7 million and ₱0.3 million in 2023 and 2022, respectively because management believes that these items may have no possible future deductible benefit when these will be reversed, settled or realized.



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

The Parent Company and SIPC availed of the OSD in the computation of their taxable income in 2023, 2022 and 2021 with an effective tax rate of 15% in 2023, 2022 and 2021.

26. Segment Information

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

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

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

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

The CODM monitors the operating results of its business units separately for the purpose of making decisions about resource allocation and performance assessment. Segment performance is evaluated based on operating profit or loss in the consolidated financial statements. The Group earned inter-segment revenues amounting to nil in 2023 and 2021 and ₱70.2 million in 2022 and nil in 2021 and 2020, pertaining to the supply of emergency power by SPC and SIPC to BLCI.

2023						
	Before Eliminations			Eliminations	After	
	Generation	Distribution	Others		Eliminations/	Consolidated
Revenue	₱2,873,821,678	₱1,678,615,101	₱-	₱4,552,436,779	₱-	₱4,552,436,779
Income before income tax	854,312,422	116,083,828	3,016,713	973,412,963	379,107,583	1,352,520,546
Net income	742,236,015	86,807,155	3,016,713	832,059,883	379,107,583	1,211,167,466
Total assets	9,111,704,641	763,775,882	66,154,480	9,941,635,003	2,589,523,210	12,531,158,213
Property, plant and equipment (see Note 11)	462,115,188	273,247,521	-	735,362,709	1,267,905	736,630,614
Total liabilities	764,105,279	468,510,645	145,207	1,232,761,131	(9,311,464)	1,223,449,667
Depreciation and amortization (see Note 22)	63,637,304	30,313,363	-	93,950,667	-	93,950,667
Capital expenditures	51,560,896	43,216,839	-	94,777,735	-	94,777,735



2022						
	Before Eliminations				Eliminations	After
	Generation	Distribution	Others	Total		Eliminations/ Consolidated
Revenue	₱2,565,982,204	₱1,354,150,548	₱–	₱3,920,132,752	(₱70,160,929)	₱3,849,971,823
Income before income tax	1,645,872,826	28,209,580	9,907,042	1,683,989,448	(289,099,987)	1,394,889,461
Net income	1,545,931,257	20,044,018	9,907,042	1,575,882,317	(289,099,987)	1,286,782,330
Total assets	8,548,644,207	786,876,611	63,229,460	9,398,750,278	2,208,953,018	11,607,703,296
Property, plant and equipment (see Note 11)	473,583,345	259,866,612	–	733,449,957	1,267,905	734,717,862
Total liabilities	650,911,273	563,653,103	236,902	1,214,801,278	(6,583,898)	1,208,217,380
Depreciation and amortization (see Note 22)	57,800,909	26,459,336	–	84,260,245	–	84,260,245
Capital expenditures	13,035,579	60,839,249	–	73,874,828	(477)	73,874,351
2021						
	Before Eliminations				Eliminations	After
	Generation	Distribution	Others	Total		Eliminations/ Consolidated
Revenue	₱1,495,725,744	₱973,658,521	₱–	₱2,469,384,265	₱–	₱2,469,384,265
Income before income tax	1,897,868,015	17,604,966	4,889,220	1,920,362,201	(641,023,417)	1,279,338,784
Net income	1,822,421,878	11,425,389	4,889,220	1,838,736,487	(641,023,417)	1,197,713,070
Total assets	7,344,102,008	645,719,620	80,012,500	8,069,834,128	2,282,390,810	10,352,224,938
Property, plant and equipment (see Note 11)	505,488,253	225,009,267	–	730,497,520	1,268,382	731,765,902
Total liabilities	504,637,301	431,032,301	132,434	935,802,036	(5,936,033)	929,866,003
Depreciation and amortization (see Note 22)	61,537,016	25,437,401	–	86,974,417	–	86,974,417
Capital expenditures	27,818,771	42,958,309	–	70,777,080	–	70,777,080

The Group's revenue from contracts with customers is mainly from generation and distribution services. Set out below is the disaggregation of the Group's revenue from contracts with customer in 2023, 2022 and 2021:

2023			
	Generation	Distribution	Total
Revenue from power supply contracts and ancillary services	₱744,309,063	₱–	₱744,309,063
Revenue from market power trading	2,129,512,615	–	2,129,512,615
Revenue from distribution services (see Note 23)	–	1,678,615,101	1,678,615,101
Total revenue	₱2,873,821,678	₱1,678,615,101	₱4,552,436,779
2022			
	Generation	Distribution	Total
Revenue from power supply contracts and ancillary services	₱1,054,696,712	₱–	₱1,054,696,712
Revenue from market power trading	1,441,124,563	–	1,441,124,563
Revenue from distribution services (see Note 23)	–	1,354,150,548	1,354,150,548
Total revenue	₱2,495,821,275	₱1,354,150,548	₱3,849,971,823



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

Revenue from the Group’s major customers, which account for 16%, 23%, 32% in 2023, 2022 and 2021, respectively, amounted to ₱744.3 million, ₱906.6 million and ₱787.4 million, respectively.

Eliminations

Eliminations are part of detailed reconciliations presented below:

Reconciliation of Net Income

	2023	2022	2021
Segment net income	₱832,059,882	₱1,575,882,321	₱1,838,736,487
Equity in net earnings of associates (see Note 8)	587,156,364	925,354,304	867,849,896
Dividend income from associates (see Note 8)	(199,999,778)	(1,004,673,517)	(1,146,799,813)
Dividend income from subsidiaries	(8,049,002)	(209,780,778)	(362,073,500)
Group net income	₱1,211,167,466	₱1,286,782,330	₱1,197,713,070

Reconciliation of Total Assets

	2023	2022
Segment assets	₱9,941,635,003	₱9,400,018,185
Inter-segment receivables	(16,682,422)	(15,222,759)
Investments in associates and subsidiaries	2,573,683,616	2,190,385,854
Goodwill	32,522,016	32,522,016
Group assets	₱12,531,158,213	₱11,607,703,296

Reconciliation of Total Liabilities

	2023	2022
Segment liabilities	₱1,232,761,131	₱1,214,801,278
Inter-segment payables	(9,311,464)	(6,583,898)
Group liabilities	₱1,223,449,667	₱1,208,217,380



Indicators

The following financial indicators are used, among others, by management to evaluate the performance of the Group as of and for the years ended December 31, 2023, 2022 and 2021:

	2023	2022	2021
For the years ended December 31			
Earnings per share (see Note 27)	₱0.78	₱0.85	₱0.80
Share in net earnings of associates (see Note 10)	587,156,364	925,354,304	867,849,896
Return on equity (total comprehensive income divided by average total equity)	11.19%	13.06%	11.99%
Return on assets (total comprehensive income divided by average total assets)	10.06%	11.80%	10.99%
Cash flows:			
Net cash flows from operating activities	847,577,390	369,629,036	300,434,967
Net cash flows from investing activities	65,222,086	930,799,167	1,065,237,033
Net cash flows used in financing activities	(192,854,222)	(321,100,929)	(2,327,504,748)
As of December 31			
Cash and cash equivalents (see Note 6)	₱4,743,043,034	₱4,031,421,593	₱2,984,110,635
Current ratio (total current assets including noncurrent assets held for sale divided by total current liabilities including liabilities directly associated with noncurrent assets held for sale)	6.75	6.52	7.21
Debt ratio (total liabilities divided by total assets)	0.10	0.10	0.09
Debt-to-equity ratio (total liabilities divided by total equity)	0.11	0.11	0.10
Solvency ratio (total comprehensive income before depreciation and amortization divided by total liabilities)	1.07	1.16	1.38

27. Earnings Per Share

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

	2023	2022	2021
Net income attributable to equity holders of the Parent	₱1,169,895,562	₱1,272,356,481	₱1,190,653,672
Weighted average number of common shares issued and outstanding	1,496,551,803	1,496,551,803	1,496,551,803
Basic/Diluted earnings per share	₱0.78	₱0.85	₱0.80



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

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

There are no potentially dilutive common shares issued as of December 31, 2023, 2022 and 2021.

28. Financial Risk Management Objectives and Policies

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

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

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

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

Liquidity Risk

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

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

		2023				
	Total	On Demand	1 to 30 Days	31 to 60 Days	61 to 90 Days	Over 90 Days
Financial Assets						
At amortized cost:						
Cash and cash equivalents	₱4,743,043,034	₱798,410,969	₱3,944,632,065	₱—	₱—	₱—
Trade and other receivables						
Receivable from customers	457,828,766	296,349,329	31,681,359	18,264,876	13,918,375	97,614,827
Dividends receivable	39,999,956	—	—	—	—	39,999,956
Current portion of PSALM deferred adjustments	31,892,013	31,892,013	—	—	—	—
Due from related parties	3,149,695	557,384	20,474	143,405	196,013	2,232,419
Others*	116,237,227	39,395,814	17,110,654	11,097,177	2,645,408	45,988,174
	649,107,657	368,194,540	48,812,487	29,505,458	16,759,796	185,835,376
PSALM deferred adjustments (included in "Other noncurrent assets")	1,839,924	—	—	—	—	1,839,924
	5,393,990,615	1,166,605,509	3,993,444,552	29,505,458	16,759,796	187,675,300
At FVOCI:						
Investment in proprietary club shares	15,000,000	—	—	—	—	15,000,000
	5,408,990,615	1,166,605,509	3,993,444,552	29,505,458	16,759,796	202,675,300

(Forward)



2023						
	Total	On Demand	1 to 30 Days	31 to 60 Days	61 to 90 Days	Over 90 Days
Financial Liabilities						
Trade and other payables						
Trade	₱394,559,067	₱368,776,398	₱3,800,169	₱280,257	₱602,161	₱21,100,082
Nontrade	244,060,030	92,297,513	3,202,704	3,394,647	3,204,128	141,961,038
Accrued expenses	30,994,396	12,089,740	634,320	615,359	(490,310)	18,145,287
Due to related parties	530,150	20,360	—	—	7,148	502,642
	670,143,643	473,184,011	7,637,193	4,290,263	3,323,127	181,709,049
Customers' deposits	193,914,394	—	—	—	—	193,914,394
Lease liabilities	10,725,319	—	—	—	—	10,725,319
Other noncurrent liability	1,839,924	—	—	—	—	1,839,924
	876,623,280	473,184,011	7,637,193	4,290,263	3,323,127	388,188,686
Net Financial Assets (Liabilities)	₱4,532,367,335	₱693,421,498	₱3,985,807,359	₱25,215,195	₱13,436,669	(₱185,513,386)

* Others include Interest receivable (see Note 7).

2022						
	Total	On Demand	1 to 30 Days	31 to 60 Days	61 to 90 Days	Over 90 Days
Financial Assets						
At amortized cost:						
Cash and cash equivalents	₱4,031,421,593	₱1,819,002,343	₱2,212,419,250	₱—	₱—	₱—
Trade and other receivables						
Receivable from customers	593,891,475	369,709,365	46,790,364	24,642,283	13,110,124	139,639,339
Dividends receivable	—	—	—	—	—	—
Current portion of PSALM deferred adjustments	36,798,477	36,798,477	—	—	—	—
Due from related parties	2,689,294	249,598	16,787	15,000	131,842	2,276,067
Others*	62,455,812	17,809,500	16,412,138	14,244,441	5,734,827	8,254,906
	695,835,058	424,566,940	63,219,289	38,901,724	18,976,793	150,170,312
PSALM deferred adjustments (included in "Other noncurrent assets")	35,571,861	—	—	—	—	35,571,861
	4,762,828,512	2,243,569,283	2,275,638,539	38,901,724	18,976,793	185,742,173
At FVOCI:						
Investment in proprietary club shares	13,000,000	—	—	—	—	13,000,000
	4,775,828,512	2,243,569,283	2,275,638,539	38,901,724	18,976,793	198,742,173
Financial Liabilities						
Trade and other payables						
Trade	520,165,764	478,726,389	5,812,963	3,567,007	1,558,500	30,500,905
Nontrade	46,975,567	4,754,292	3,141,306	3,066,540	3,066,554	32,946,875
Accrued expenses	49,082,493	38,740,025	121,898	301,058	211,743	9,707,769
Due to related parties	502,642	—	—	—	—	502,642
	616,726,466	522,220,706	9,076,167	6,934,605	4,836,797	73,658,191
Customers' deposits	191,579,049	—	—	—	—	191,579,049
Lease liabilities	13,215,403	—	—	—	—	13,215,403
Other noncurrent liability	35,571,861	—	—	—	—	35,571,861
	857,092,779	522,220,706	9,076,167	6,934,605	4,836,797	314,024,504
Net Financial Assets (Liabilities)	₱3,918,735,733	₱1,721,348,577	₱2,266,562,372	₱31,967,119	₱14,139,996	(₱115,282,331)

* Others include Interest receivable (see Note 7).

Credit Risk

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

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

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



are collected to guarantee any uncollected bills from the customers upon termination of the service contract.

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

2023			
	Maximum exposure	Offset	Exposure to credit risk
At amortized cost:			
Cash and cash equivalents (excluding cash on hand)	₱4,742,464,501	(₱10,138,295)	₱4,732,326,206
Trade and other receivables	649,107,657	—	649,107,657
PSALM deferred adjustments (included in "Other noncurrent assets")	1,839,924	—	1,839,924
At FVOCI:			
Investment in proprietary club shares	15,000,000	—	15,000,000
	₱5,408,412,082	(₱10,138,295)	₱5,398,273,787

2022			
	Maximum exposure	Offset	Exposure to credit risk
At amortized cost:			
Cash and cash equivalents (excluding cash on hand)	₱4,030,740,465	(₱9,507,428)	₱4,021,233,037
Trade and other receivables	695,835,058	(60,342,329)	635,492,729
PSALM deferred adjustments (included in "Other noncurrent assets")	35,571,861	—	35,571,861
At FVOCI:			
Investment in proprietary club shares	13,000,000	—	13,000,000
	₱4,775,147,384	(₱69,849,757)	₱4,705,297,627

As of December 31, 2023 and 2022, the Group's significant concentration of credit risk pertains to its trade and other receivables and PSALM deferred adjustments amounting to ₱650.9 million and ₱731.4 million, respectively, and impaired financial assets, determined based on probability of collection, are adequately covered with allowance.

The following are the details of the Group's assessment of credit quality and the related ECLs as at December 31, 2023 and 2022:

General Approach

- *Cash and cash equivalents* - As of December 31, 2023 and 2022, the ECL relating to the cash and cash equivalents of the Group is minimal as these are deposited in reputable banks which have good bank standing, and is considered to have low credit risk.
- *Due from NPC/PSALM and other receivables* - As of December 31, 2023 and 2022, there were no individually impaired accounts. No ECL is recognized for these receivables since there were no history of default payments. This assessment is undertaken each financial year through examining the financial position of the parties and the markets in which the parties operate.



Simplified Approach

- *Trade and other receivables* - The Group applied the simplified approach using a 'provision matrix'. As of December 31, 2023 and 2022, the allowance for impairment losses as a result of performing collective and specific impairment test amounted to P44.9 million and P45.7 million. Management evaluated that the Parent Company's trade receivables are of high grade and of good credit quality.

2023					
	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Lifetime ECL Simplified Approach	Total
Gross carrying amount	P-	P-	P44,894,258	P649,107,657	P694,001,915
Less allowance*	-	-	(44,894,258)	-	(44,894,258)
Carrying amount	P-	P-	P-	P649,107,657	P649,107,657

2022					
	Stage 1 12-month ECL	Stage 2 Lifetime ECL	Stage 3 Lifetime ECL	Lifetime ECL Simplified Approach	Total
Gross carrying amount	P-	P-	P48,283,304	P693,207,201	P741,490,505
Less allowance*	-	-	(48,283,304)	2,627,857	(45,655,447)
Carrying amount	P-	P-	P-	P695,835,058	P695,835,058

* Lifetime ECL using the simplified approach includes provision of allowance for the year and reversal of allowance amounting to P2.0 and P4.7 million, respectively.

The Group grades its financial assets as follows:

- *Cash and Cash Equivalents*: These are assessed as high grade since these are deposited in reputable banks which have good bank standing, thus credit risk is minimal.
- *Receivable/Due from NPC/PSALM, NGCP and Distribution Utilities*: These are assessed as high grade since these receivables arose from the contract provisions of the ROMM Agreement, Operation and Maintenance Service Contracts (OMSC), Ancillary Services Procurement Agreements (ASPA), Power Supply Contracts (PSCs), and/or collectible from government institution.
- *Receivable from Customers of BLCI*: Receivables from commercial customers are classified as high grade; receivables from residential customers as standard; and receivables from the government, hospitals and radio stations as substandard. Classification is based on the collection history with these customers.
- *Due from Related Parties*: These are assessed as standard, although recoverability of these receivables is certain, as these are given secondary priority as to settlement by the related parties compared to third party obligations.
- *Other Receivables*: Grading of financial assets is determined individually based on the Group's collection experience with the counterparty.

Fair Value of Financial Assets and Financial Liabilities

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



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

- *Cash and Cash Equivalents, Trade and Other Receivables and Trade and Other Payable.* The carrying amounts of cash and cash equivalents, trade and other receivables and trade and other payables approximate their value due to the relatively short-term maturity of these financial instruments.
- *Investment in Proprietary Club Shares.* Market values have been used to determine the fair value of traded proprietary club shares.
- *Noncurrent Receivable (included in "Other Noncurrent Assets") and Other Noncurrent Liability.* The fair values of the noncurrent receivable and noncurrent liability are based on the net present value of cash flows using the prevailing market rate of interest. As of December 31, 2023 and 2022, the carrying values of the noncurrent receivable and noncurrent liability approximate their fair values.
- *Customers' Deposits.* The fair value of customers' deposits approximates the carrying value as (1) bill deposits earn interest at the prevailing market interest rate in accordance with regulatory guidelines and (2) the timing and related amounts of future cash flows relating to material deposits cannot be reasonably and reliably estimated for purposes of establishing their fair values using an alternative valuation technique.

As of December 31, 2023 and 2022, the Group considers its investment in proprietary club shares measured and carried at fair values of ₱15.0 million and of ₱13.0 million, respectively, under Level 1 classification (see Notes 3 and 12). The Group also considers its noncurrent receivable amounting to ₱1.8 million and ₱35.6 million as of December 31, 2023 and 2022, respectively; noncurrent liability amounting to ₱1.8 million and ₱35.6 million as of December 31, 2023 and 2022, respectively; and customers' deposits amounting to ₱193.9 million and ₱191.6 million as of December 31, 2023 and 2022, respectively, under the Level 3 classification.

During the reporting period ended December 31, 2023, there were no transfers between Level 1 and Level 2 fair value measurements, and no transfers into and out of Level 3 fair value measurements.

29. Other Matters

Electricity Power Industry Reform Act (EPIRA) of 2001

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

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



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

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

Land Lease Agreements (LLAs)

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

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

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

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

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



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

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

- *Berthing Area and Subtransmission Steel Post.* On June 23, 2022, the Parent Company entered into a 5-year lease agreement for a parcel of land with Philippine Ports Authority designated as berthing and subtransmission steel post area in the Port of Tapal, Bohol.

PSALM’s Cost Recovery Adjustments

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

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

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

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

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

The current portion of the Group’s PSALM deferred adjustments amounting to ₱31.9 million as of December 31, 2023 and 2022, respectively, is recorded under “Trade and other receivables” and the noncurrent portion amounting to ₱1.8 million and ₱35.6 million as of December 31, 2023 and 2022, respectively, are presented as part of “Other noncurrent assets”, in the consolidated statements of financial position (see Notes 7 and 12). The current and noncurrent portions of the corresponding amounts due to PSALM was presented as part of “Nontrade” under “Trade and other payables” and “Other noncurrent liability” in the consolidated statement of financial position as of December 31, 2023 and 2022.



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

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

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

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

On December 9, 2015, the SC resolved to deny the Motion for Reconsideration. Thus, a Motion For Leave to File and Admit the Attached Urgent Motion for Second Reconsideration and/or Referral to the En Banc was filed by the Parent Company on February 2, 2016. However, on April 6, 2016, the SC issued a Resolution where it resolved among others to deny the said Motion For Leave and noted without action, the attached Urgent Motion for Second Reconsideration and /or Referral to En Banc, in view of the denial of the Motion for Leave. Accordingly, an amount equivalent to ₱1,143.2 million (i.e., amount paid by the Parent Company to PSALM in 2014, net of withholding tax) was recognized as other noncurrent receivable as of December 31, 2016 and 2015. On October 5, 2016, the SC granted the manifestation/motion of Therma Power Visayas, Inc. (TPVI) dated March 16, 2016 praying for the reinstatement of the notice of award in favor of TPVI dated April 30, 2014. The Parent Company then filed an Urgent Motion For Reconsideration with Alternative Motion to Refer to the En Banc, on November 2, 2016. In a Resolution dated November 28, 2016, the SC denied the same. Another Urgent Motion For Reconsideration was filed by the Parent Company on December 9, 2016. This was followed up by the filing on January 19, 2017 of a Supplemental Motion/Petition for Referral to the En Banc which argued that there was a violation of SPC's substantive right to due process in reinstating the Notice of Award in favor of TPVI and a violation of procedural due process in lifting the Entry of Judgment of September 28, 2015.

On February 21, 2017, the Parent Company received the Entry of Judgment through its legal counsel certifying that the September 28, 2015 Decision and October 5, 2016 Resolution have become final and executory on November 28, 2016 and were recorded in the Books of Entries of Judgments.

On April 26, 2017, the SC issued a final resolution denying both the Motion for Reconsideration and the Supplemental Motion/Petition for Referral to the En Banc filed on December 9, 2016 and January 19, 2017, respectively. In its final resolution, the SC confirmed that the September 28, 2015 Decision and the October 5, 2016 Resolution became final on November 28, 2016.



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

Considering that the NPPC has been in the possession of the Parent Company even after November 28, 2016, it has to operate the plant as the best way to preserve it pending the eventual turn-over to PSALM and the return of the purchase price, as well as the reimbursement of necessary and useful expenses made on the NPPC. The incidental income and expenses derived from operating and preserving the NPPC after November 28, 2016 are recognized as part of "Others - net" in the consolidated statements of comprehensive income (see Note 8).

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

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

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

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

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

Purchase of Power Barge 102 and 103

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

On February 22, 2022, the Deed of Absolute Sale for the purchase of PB 102 was executed between SPC and ACEN for a consideration amounting to ₱39.2 million, inclusive of VAT. On April 18, 2022, the Deed of Absolute Sale for the purchase of PB103 was executed between SPC and ACEN for the same consideration as PB102.



30. Lease Agreements

The Group has entered into various leases for rooms, office spaces, parking lots, sub transmission line steel post space, and parcels of land which include those with other landowners and those with respect to its LLA with PSALM (see Note 29). Leases of parcels of land generally have lease terms between 5–25 years. Lease terms for the other leased assets generally vary between five months to 4 years.

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

2023

	Right of Use Asset	Lease Liabilities
At January 1	₱15,297,159	₱11,387,692
Interest accretion	–	661,891
Depreciation expense	(2,830,008)	–
Payments of:		
Principal	–	(1,828,196)
Interest	–	(661,891)
At December 31	₱12,467,151	₱9,559,496

2022

	Right of Use Asset	Lease Liabilities
At January 1	₱4,615,478	₱2,662,317
Additions	12,252,170	12,252,170
Interest accretion	–	373,979
Depreciation expense	(1,570,489)	–
Payments of:		
Principal	–	(3,526,795)
Interest	–	(373,979)
At December 31	₱15,297,159	₱11,387,692

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

	2023	2022	2021
Depreciation expense of right-of-use assets	₱2,830,008	₱1,570,489	₱3,423,945
Interest expense on lease liabilities	661,891	373,979	112,059
Rent expense - short-term leases (see Notes 19 and 20)	6,282,648	6,627,758	4,586,277
	₱9,774,547	₱8,572,226	₱8,131,281

Shown below is the maturity analysis as of December 31, 2023 and 2022 of the undiscounted lease payments:

	2023	2022
One year	₱2,739,096	₱2,490,088
More than 1 years to 2 years	3,013,006	2,739,096
More than 2 years to 3 years	3,314,307	3,013,006
More than 3 years to 4 years	1,658,910	3,314,307
More than 4 years to 5 years	–	1,658,910
	₱10,725,319	₱13,215,407



31. Notes to the Consolidated Statements of Cash Flows

Changes in liabilities arising from financing activities are as follows:

2023						
	At January 1	Dividend Declaration	Dividend Attributable to NCI	Others	Cash Flows	At December 31
Dividends payable (see Note 18)	₱4,342,483	₱299,310,361	₱6,951,001	₱–	(₱191,026,026)	₱119,577,819
Lease liabilities* (see Note 30)	11,387,692	–	–	661,891	(2,490,087)	9,559,496
	₱15,730,175	₱299,310,361	₱6,951,001	₱661,891	(₱193,516,113)	₱129,137,315

* The cash outflow presented includes payment of interest amounting to ₱0.7 million is presented as part of operating activities in the statement of cash flows (see Note 30).

2022						
	At January 1	Dividend Declaration	Dividend Attributable to NCI	Others	Cash Flows	At December 31
Dividends payable (see Note 18)	₱4,342,484	₱299,310,361	₱18,263,772	₱–	(₱317,574,134)	₱4,342,483
Lease liabilities* (see Note 30)	2,662,317	–	–	12,626,149	(3,900,774)	11,387,692
	₱7,004,801	₱299,310,361	₱18,263,772	₱12,626,149	(₱321,474,908)	₱15,730,175

* The cash outflow presented includes payment of interest amounting to ₱0.4 million is presented as part of operating activities in the statement of cash flows (see Note 30). Others also include additional lease liabilities recognized during the year.

2021						
	At January 1	Dividend Declaration	Dividend Attributable to NCI	Others	Cash Flows	At December 31
Dividends payable (see Note 18)	₱–	₱2,319,655,293	₱10,426,500	₱–	(₱2,325,739,309)	₱4,342,484
Lease liabilities* (see Note 30)	6,172,755	–	–	(1,632,940)	(1,877,498)	2,662,317
	₱6,172,755	₱2,319,655,293	₱10,426,500	(₱1,632,940)	(₱2,327,616,807)	₱7,004,801

* Others include the net effect of interest accrual for lease liabilities and payment amounting to ₱0.1 million but classified as part of operating activities (see Note 30). Others also include the pre-termination of a lease contract during the year.

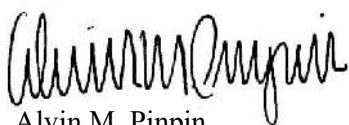


INDEPENDENT AUDITOR'S REPORT ON SUPPLEMENTARY SCHEDULES

The Board of Directors and the Stockholders
SPC Power Corporation
7th Floor, BDO Towers Paseo
Paseo de Roxas
Makati City

We have audited in accordance with Philippine Standards on Auditing, the consolidated financial statements of SPC Power Corporation and Subsidiaries as at December 31, 2023 and 2022, and for each of the three years in the period ended December 31, 2023, included in this Form 17-A, and have issued our report thereon dated April 11, 2024. Our audits were made for the purpose of forming an opinion on the basic consolidated financial statements taken as a whole. The schedules listed in the Index to the Consolidated Financial Statements and Supplementary Schedules are the responsibility of the Company's management. These schedules are presented for purposes of complying with the Revised Securities Regulation Code Rule 68, and are not part of the basic consolidated financial statements. These schedules have been subjected to the auditing procedures applied in the audit of the basic consolidated financial statements and, in our opinion, fairly state, in all material respects, the information required to be set forth therein in relation to the basic financial statements taken as a whole.

SYCIP GORRES VELAYO & CO.



Alvin M. Pinpin

Partner

CPA Certificate No. 94303

Tax Identification No. 198-819-157

BOA/PRC Reg. No. 0001, August 25, 2021, valid until April 15, 2024

BIR Accreditation No. 08-001998-070-2023, October 23, 2023, valid until October 22, 2026

PTR No. 10079991, January 6, 2024, Makati City

April 11, 2024

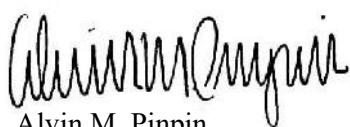


INDEPENDENT AUDITOR'S REPORT ON COMPONENTS OF FINANCIAL SOUNDNESS INDICATORS

The Board of Directors and the Stockholders
SPC Power Corporation
7th Floor, BDO Towers Paseo
Paseo de Roxas
Makati City

We have audited in accordance with Philippine Standards on Auditing, the consolidated financial statements of SPC Power Corporation and Subsidiaries (the Group) as at December 31, 2023 and 2022, and for each of the three years in the period ended December 31, 2023, and have issued our report thereon dated April 11, 2024. Our audits were made for the purpose of forming an opinion on the basic financial statements taken as a whole. The Supplementary Schedule of Financial Soundness Indicators, including their definitions, formulae, calculation, and their appropriateness or usefulness to the intended users, are the responsibility of the Group's management. These financial soundness indicators are not measures of operating performance defined by Philippine Financial Reporting Standards (PFRSs) and may not be comparable to similarly titled measures presented by other companies. This schedule is presented for the purpose of complying with the Revised Securities Regulation Code Rule 68 issued by the Securities and Exchange Commission, and is not a required part of the basic consolidated financial statements prepared in accordance with PFRSs. The components of these financial soundness indicators have been traced to the Group's consolidated financial statements as at December 31, 2023 and 2022 and for each of the three years in the period ended December 31, 2023 and no material exceptions were noted.

SYCIP GORRES VELAYO & CO.



Alvin M. Pinpin

Partner

CPA Certificate No. 94303

Tax Identification No. 198-819-157

BOA/PRC Reg. No. 0001, August 25, 2021, valid until April 15, 2024

BIR Accreditation No. 08-001998-070-2023, October 23, 2023, valid until October 22, 2026

PTR No. 10079991, January 6, 2024, Makati City

April 11, 2024



SPC POWER CORPORATION AND SUBSIDIARIES

SCHEDULE A - FINANCIAL ASSETS

CASH, RECEIVABLES, FINANCIAL ASSETS AND OTHER SHORT-TERM INVESTMENTS

DECEMBER 31, 2023

Name of Issuing Entity and Description of Each Issue	Number of Shares or Principal Amount of Bonds and Notes	Amount Shown in the Statement of Financial Position/Notes	Value Based on Market Quotations at End of Reporting Period	Income Received and Accrued
At amortized cost:				
Cash and cash equivalents	—	₱4,743,043,034	₱4,743,043,034	₱160,534,615
Trade and other receivables:				
Receivable from customers	—	457,828,766	457,828,766	—
Current portion of PSALM deferred adjustments	—	36,798,477	36,798,477	—
Due from related parties	—	3,149,695	3,149,695	—
Dividend receivable	—	39,999,956	39,999,956	—
Others	—	111,330,763	111,330,763	—
		649,107,657	649,107,657	—
PSALM deferred adjustments (included in “Other noncurrent assets”)	—	1,839,924	1,839,924	—
		5,393,990,615	5,393,990,615	160,534,615
Financial assets at fair value through other comprehensive income:				
Investment in proprietary club shares		15,000,000	15,000,000	
Total financial assets	—	₱5,408,990,615	₱5,408,990,615	₱160,534,615

See Note 28 of the Consolidated Financial Statements.

SPC POWER CORPORATION AND SUBSIDIARIES

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

DECEMBER 31, 2023

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

SPC POWER CORPORATION AND SUBSIDIARIES

**SCHEDULE C - AMOUNTS RECEIVABLE FROM RELATED PARTIES WHICH ARE ELIMINATED
DURING THE CONSOLIDATION OF FINANCIAL STATEMENTS
DECEMBER 31, 2023**

Name and Designation of Debtor	Balance at Beginning of Period	Additions	Collections	Write Offs	Balance at End of Period		
					Current	Noncurrent	Total
SPC Electric Company, Inc.	₱12,869	₱20,668	(₱27,528)	₱—	₱6,009	₱—	₱6,009
Bohol Light Company, Inc.	488,505	161,866	(298,360)	—	352,011	—	352,011
SPC Island Power Corporation	328,523	2,427,874	(2,080,862)	—	675,535	—	675,535
SPC Malaya Power Corporation	1,669,588	21,155	(8,139)	—	1,682,604	—	1,682,604
SPC Light Company, Inc.	12,289	21,009	(26,847)	—	6,451	—	6,451
Cebu Naga Power Plant Corporation	217,151	109,111	—	—	326,262	—	326,262
	₱2,728,925	₱2,761,683	(₱2,441,736)	₱—	₱3,048,872	₱—	₱3,048,872

SPC POWER CORPORATION AND SUBSIDIARIES

SCHEDULE D - LONG-TERM DEBT

DECEMBER 31, 2023

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

SPC POWER CORPORATION AND SUBSIDIARIES

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

DECEMBER 31, 2023

Name of Related Party	Balance at Beginning of Period	Balance at End of Period
– Not applicable –		

SPC POWER CORPORATION AND SUBSIDIARIES

SCHEDULE F - GUARANTEES OF SECURITIES OF OTHER ISSUERS

DECEMBER 31, 2023

Name of Issuing Entity of Securities Guaranteed by the Company for which this Statement is Filed	Title of Issue of Each Class of Securities Guaranteed	Total Amount Guaranteed and Outstanding	Amount Owned by Person for which Statement is Filed	Nature of Guarantee
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– Not applicable –

SPC POWER CORPORATION AND SUBSIDIARIES

SCHEDULE G - CAPITAL STOCK

DECEMBER 31, 2023

Title of Issue	Number of Shares Authorized	Number of Shares Issued and Outstanding as Shown under Related Consolidated Statement of Financial Position Caption	Number of Shares Reserved for Options, Warrants, Conversion and Other Rights	Affiliates	Directors and Officers	Others
Capital stock	2,000,000,000	1,496,551,803	–	21,850,269	1,275,830,707	198,870,827

See Note 18 of the Consolidated Financial Statements.

SPC POWER CORPORATION
RECONCILIATION OF RETAINED EARNINGS AVAILABLE FOR
DIVIDEND DECLARATION
FOR THE YEAR ENDED DECEMBER 31, 2023

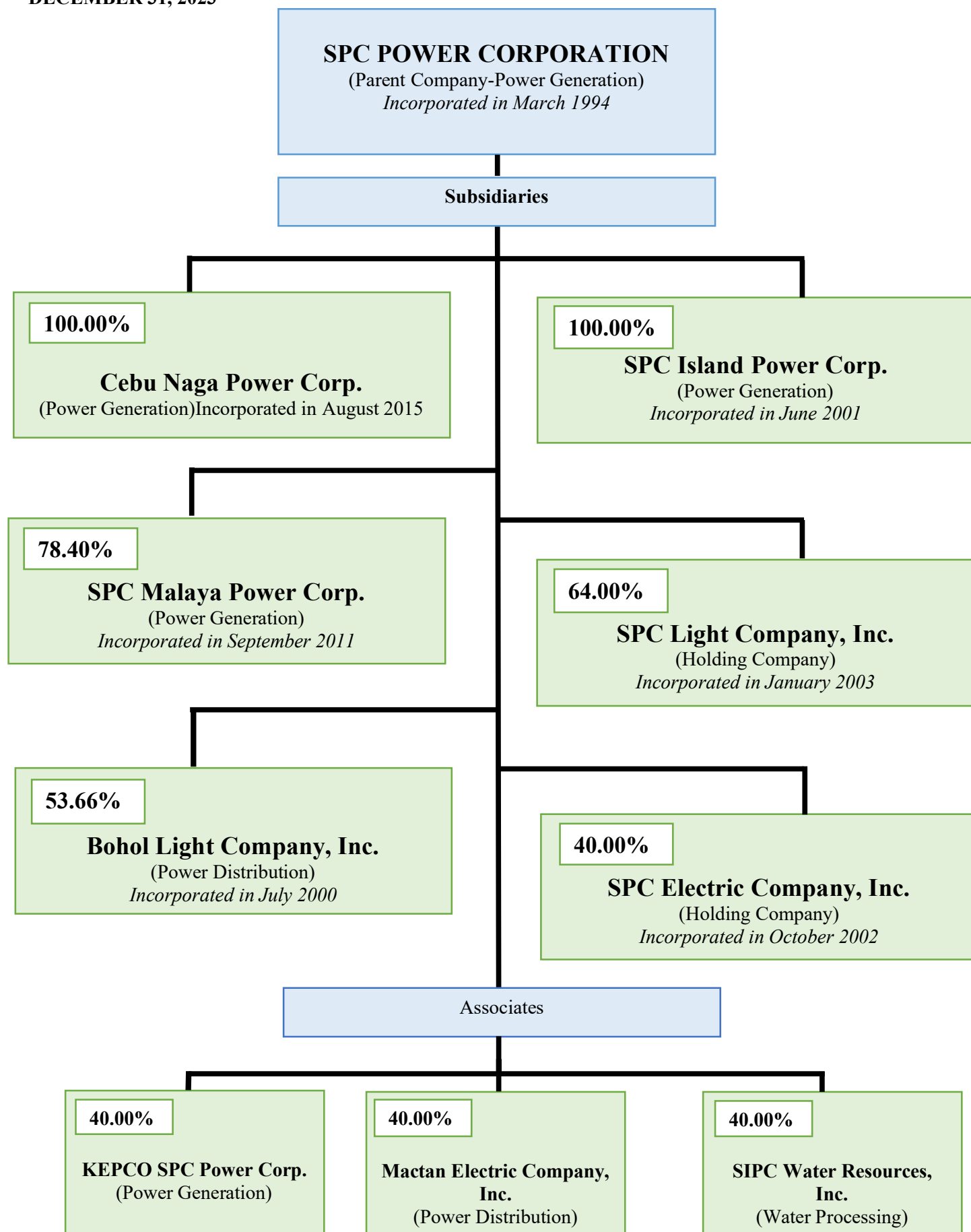
Items	Amount
Unappropriated Retained Earnings, Beginning	₱3,941,964,875
Add: Category A: Items that are directly credited to Unappropriated Retained Earnings	
Reversal of Retained Earnings appropriations	₱1,800,000,000
Effect of restatements or prior-period adjustments	—
Others	—
	<u>1,800,000,000</u>
Less: Category B: Items that are directly debited to Unappropriated Retained Earnings	
Dividend declaration during the reporting period	299,310,360
Retained Earnings appropriated during the reporting period	—
Effect of restatements or prior-period adjustments	—
Treasury shares	131,008,174
	<u>430,318,534</u>
Unappropriated Retained Earnings, as adjusted	5,311,646,341
Add: Net Income for the current year	303,031,974
Less: Category C.1: Unrealized income recognized in the profit or loss during the reporting period (net of tax)	
Equity in net income of associate/joint venture, net of dividends declared	—
Unrealized foreign exchange gain, except those attributable to cash and cash equivalents	—
Unrealized fair value adjustment (mark-to-market gains) of financial instruments at fair value through profit or loss (FVTPL)	—
Unrealized fair value gain of investment property	—
Other unrealized gains or adjustments to the retained earnings as a result of certain transactions accounted for under the PFRS	—
	<u>—</u>
Subtotal	—
Add: Category C.2: Unrealized income recognized in the profit or loss in prior reporting periods but realized in the current reporting period (net of tax)	
Realized foreign exchange gain, except those attributable to cash and cash equivalents	—
Realized fair value adjustment (mark-to-market gains) of financial instruments at fair value through profit or loss (FVTPL)	—
Realized fair value gain of investment property	—
Other unrealized gains or adjustments to the retained earnings as a result of certain transactions accounted for under the PFRS	—
	<u>—</u>
Subtotal	—

(Forward)

Items	Amount
Add: Category C.3: Unrealized income recognized in the profit or loss in prior reporting periods but reversed in the current reporting period (net of tax)	
Realized foreign exchange gain, except those attributable to cash and cash equivalents	P—
Realized fair value adjustment (mark-to-market gains) of financial instruments at fair value through profit or loss (FVTPL)	—
Realized fair value gain of investment property	—
Other unrealized gains or adjustments to the retained earnings as a result of certain transactions accounted for under the PFRS	—
Subtotal	P—
Adjusted Net Income/Loss	303,031,974
Add: Category D: Non-actual loss recognized in profit or loss during the reporting period (net of tax)	
Depreciation on revaluation increment (after tax)	—
Subtotal	—
Add/Less: Category E: Adjustments related to relief granted by the SEC and BSP	
Amortization of the effect of reporting relief	—
Total amount of reporting relief granted during the year	—
Others	—
Subtotal	—
Add/Less: Category F: Other items that should be excluded from the determination of the amount of available for dividends distribution	
Net movement of treasury shares (except for reacquisition of redeemable shares)	—
Net movement of deferred tax asset not considered in the reconciling items under the previous categories	(1,643,418)
Net movement in deferred tax asset and deferred tax liabilities related to same transaction, e.g., set up of right of use of asset and lease liability, set-up of asset and asset retirement obligation, and set-up of service concession asset and concession payable	—
Adjustment due to deviation from PFRS/GAAP - gain(loss)	—
Interest expense on lease liabilities	661,891
Subtotal	(981,527)
TOTAL RETAINED EARNINGS, END OF THE YEAR FOR DIVIDEND DECLARATION	P5,613,696,788

SPC POWER CORPORATION AND SUBSIDIARIES

MAP OF THE RELATIONSHIPS OF THE COMPANIES WITHIN THE GROUP DECEMBER 31, 2023



SPC POWER CORPORATION

FINANCIAL SOUNDNESS INDICATORS

AS OF AND FOR THE YEAR ENDED DECEMBER 31, 2023

Ratio	Formulae	2023	2022
Current Ratio	Total Current Assets divided by Total Current Liabilities <div> Total current assets ₱5,875,254,168 Divide by: Total current liabilities 870,374,480 <hr/> Current ratio 6.75 </div>	6.75	6.52
Acid Test Ratio	Quick Assets (<i>Total Current Assets less Inventories and Prepayments and Other Current Assets</i>) divided by Total Current Liabilities <div> Total current assets ₱5,875,254,168 Less: Inventories 399,393,666 Prepayments and other current assets 83,709,811 <hr/> Quick assets 5,392,150,691 Divide by: Total current liabilities 870,374,480 <hr/> Acid test ratio 6.20 </div>	6.20	5.82
Solvency Ratio	Total Comprehensive Income before Depreciation and Amortization divided by Total Liabilities <div> Total comprehensive income ₱1,214,483,992 Add: Depreciation and amortization 93,950,667 <hr/> 1,308,434,659 Divide by: Total liabilities 1,223,449,667 <hr/> Solvency ratio 1.07 </div>	1.07	1.14
Debt-to-Equity Ratio	Total Liabilities divided by Total Equity <div> Total liabilities ₱1,223,449,667 Divide by: Total equity 11,307,708,546 <hr/> Debt-to-equity ratio 0.11 </div>	0.11	0.12
Asset-to-Equity Ratio	Total Assets divided by Equity Attributable to Parent <div> Total assets ₱12,531,158,213 Divide by: Equity attributable to parent 11,140,796,492 <hr/> Asset-to-equity ratio 1.12 </div>	1.12	1.13

Ratio	Formulae	2023	2022
Interest Rate Coverage Ratio	<div>Earnings before Income Tax, Depreciation and Amortization (<i>Net Income plus Provision for Income Tax, Interest Expense, Depreciation and Amortization less Interest Income</i>) divided by Interest Expense</div> <div><div>Net income</div><div>₱1,211,167,466</div><div>Add: Provision for income tax</div><div>141,353,080</div><div>Interest expense</div><div>5,537,842</div><div></div><div>1,358,058,388</div><div>Less: Interest income</div><div>160,535,324</div><div>EBIT</div><div>1,197,523,064</div><div>Add: Depreciation and amortization</div><div>93,950,667</div><div>EBITDA</div><div>1,291,473,731</div><div>Divide by: Interest expense</div><div>5,537,842</div><div>Interest expense coverage ratio</div><div>233.21</div></div>	233.21	289.64
Return on Equity	<div>Total Comprehensive Income divided by Average Total Equity (<i>Total Equity PY + Total Equity CY divided by 2</i>)</div> <div><div>Total comprehensive income</div><div>₱1,214,483,992</div><div>Total equity current year</div><div>11,307,708,546</div><div>Total equity prior year</div><div>10,399,485,916</div><div>Average total equity</div><div>10,853,597,231</div><div>Return on equity</div><div>11.19%</div></div>	11.19%	13.06%
Return on Assets	<div>Total Comprehensive Income divided by Average Total Assets (<i>Total Assets PY + Total Assets CY divided by 2</i>)</div> <div><div>Total comprehensive income</div><div>₱1,214,483,992</div><div>Total assets current year</div><div>12,531,158,213</div><div>Total assets prior year</div><div>11,607,703,296</div><div>Average total assets</div><div>12,069,430,755</div><div>Return on assets</div><div>10.06%</div></div>	10.06%	11.79%
Net Profit Margin	<div>Net Income Attributable to Parent divided by Revenue</div> <div><div>Net income attributable to parent</div><div>₱1,169,895,562</div><div>Divide by: Revenue</div><div>4,552,436,779</div><div>Net income margin</div><div>25.70%</div></div>	25.70%	33.05%