

# COVER SHEET

4 1 3 7 6  
S.E.C. Registration Number

S Y N E R G Y G R I D & D E V E L O P M E N T  
P H I L S . , I N C . ( f o r m e r l y : U E M  
D E V E L O P M E N T P H I L S . , I N C . )

(Company's Full Name)

1 6 0 7 1 6 T H F L O O R T Y C O O N C E N T E R  
B L D G. C O N D O M I N I U M P E A R L D R I V E ,  
P A S I G C I T Y , M E T R O M A N I L A

(Business Address: No. Street/City/Town/Province)

Pia Isabel Co  
Contact Person

8633-9757/8584-3930  
Company Telephone Number

1 2  
Month

3 1  
Day

**SEC FORM 17-A**  
FORM TYPE

1 2  
Month

2 2  
Day

Fiscal Year  
N/A

Annual Meeting

Secondary License Type, if Applicable

Dept. Requiring this Doc.

Amended Articles Number/Section

Total Amount of Borrowings  
Total No. of Stockholders

Domestic

Foreign

To be accomplished by SEC Personnel concerned

File Number

LCU

Document I.D.

Cashier

STAMPS

Remarks = pls. use black ink for scanning purposes

SECURITIES AND EXCHANGE COMMISSION

SEC FORM 17-A

ANNUAL REPORT PURSUANT TO SECTION 17  
OF THE SECURITIES REGULATION CODE AND SECTION 141  
OF CORPORATION CODE OF THE PHILIPPINES

1. For the fiscal year ended: **31 December 2023**
2. SEC Identification Number: **41376** 3. BIR Tax Identification No.: **000-593-240**
4. Exact name of issuer as specified in its charter: **SYNERGY GRID & DEVELOPMENT PHILS., INC.**  
(formerly UEM Development Phils., Inc.)
5. **Pasig City, Philippines** 6.  (SEC Use Only)  
Province, Country or other jurisdiction of Industry Classification Code:  
incorporation or organization
7. **16th Floor, Tycoon Center Bldg.**  
**Condominium Pearl Drive, Pasig City, Metro Manila** **1605**  
Address of principal office Postal Code
8. **(632) 85843930**  
Issuer's telephone number, including area code
9. Former name, former address, and former fiscal year. If changed since last report. **N/A**
10. Securities registered pursuant to Sections 8 and 12 of the SRC, or Sec. 4 and 8 of the RSA (as of 31 December 2004)

Title of Each Class	Number of Shares of Common Stock Outstanding and Amount of Debt Outstanding
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<b>Common</b>	<b>5,265,866,000</b>
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11. Are any or all of these securities listed on a Stock Exchange.

Yes ☒ No ☐

12. Check whether the issuer:

(a) has filed all reports required to be filed by Section 17 of the SRC and SRC Rule 17 thereunder of Section 11 of the RSA and RSA Rule 11(a)-1 thereunder, and Sections 26 and 141 of The Corporation Code of the Philippines during the preceding (12) months (or for such shorter period that the Company was required to file such reports);

Yes ☒ No ☐

(b) has been subject to such filing requirements for the past 90 days.

Yes ☒ No ☐

Aggregate market value of the voting stock held by non-affiliates of the Company. **₱34,491,422,300<sup>1</sup>** (Based on closing market price of **₱6.55** on December 29, 2023,<sup>2</sup> the last trading day for 2023).

<sup>1</sup> Based on Public Ownership report as of December 31, 2023

<sup>2</sup> Based on the historical data in the website of the Philippine Stock Exchange.

**APPLICABLE ONLY TO REGISTRANTS INVOLVED  
IN INSOLVENCY/SUSPENSION OF PAYMENTS PROCEEDINGS DURING  
THE PRECEDING FIVE (5) YEARS**

13. Check whether the registrant has filed all documents and reports required to be filed by Section 17 of the Code subsequent to the distribution of securities under a plan confirmed by a court or the Commission.

Yes [ ☐ ]

No [ ☒ ]

This item is not applicable to SGP.

**DOCUMENTS INCORPORATED BY REFERENCE:**

SGP likewise attaches to this form and incorporates by reference as a component of Part II hereof its Statement of Management's Responsibility for Financial Statements and Audited Financial Statements as of 31 December 2023.

**THE CORPORATION UNDERTAKES TO PROVIDE WITHOUT CHARGE TO EACH PERSON, ON THE WRITTEN REQUEST OF ANY PERSON, COPY OF SGP'S ANNUAL REPORT ON SEC FORM 17-A.**

Written request for a copy of the Annual Report on SEC Form 17-A should be addressed to:

**ATTY. CHERYL S. SALDAÑA - DE LEON**

Corporate Secretary

Synergy Grid & Development Phils., Inc.

GSE Law Firm, Suite 2801, 25 ADB Avenue, Ortigas Center, Brgy. San Antonio, Pasig City, 1605

## **PART I – BUSINESS AND GENERAL INFORMATION**

### **Item 1. Business**

Synergy Grid & Development Phils., Inc. (SGDPI or the “Parent Company or “Company”) was originally a mining corporation and registered with the Philippine Securities and Exchange Commission (SEC) on June 1, 1970 under the name Mankayan Minerals Development Company, Inc.

The consolidated interim financial statements comprise the financial statements of the Parent Company and its subsidiaries, namely OneTaipan Holdings, Inc. (“OTHI”), Pacifica21 Holdings, Inc. (“P21”), Monte Oro Grid Resources Corporation (“MOGRC”), Calaca High Power Corporation (“CHPC”) and National Grid Corporation of the Philippines (“NGCP”), (collectively referred to as the “Group”). The Parent Company’s shares of stock are listed on the Philippine Stock Exchange (PSE) under the stock symbol “SGP.”

On February 22, 1994, the SEC approved the Parent Company’s change of corporate name to UEM Development Phils., Inc. and the change in its primary purpose from engaging in mining activities to general construction and other allied businesses. The amendment of its primary purpose was due to the potential opportunity in the construction industry brought about by the entry of a new foreign investor.

On October 10, 1997, the SEC approved the Amendment to the Seventh Article of the Parent Company’s Articles of Incorporation increasing the par value of its authorized capital stock from P0.01 to P1.00, decreasing the Parent Company’s shares of stock from 500.00 million shares to 50.00 million shares, and stating that the stockholders shall have no pre-emptive rights.

On December 14, 2010, the Board of Directors (BOD) considered and approved the Amendment of the Articles of Incorporation and By-Laws of the Parent Company for the purpose of, among others, changing the Parent Company’s corporate name to Synergy Grid & Development Phils., Inc., changing its primary purpose to enable it to engage in the business of investing in, purchasing or acquiring, and selling or disposing of the shares of stock, bonds, evidences of indebtedness and other securities issued or created by corporations and other entities engaged in power, energy, utilities, infrastructure and other allied businesses; and for the above purposes, to acquire, lease, hold, occupy, use, mortgage real and personal properties, to obtain financing from local and international funding sources or otherwise raise capital and funds by issuing or creating equity and debt securities, and to do or engage in any and all other businesses and activities incidental to or connected with, or in furtherance and/or the implementation of any and all of the foregoing. The amendments to the Articles of Incorporation and By-Laws of the Parent Company were approved by the stockholders on December 21, 2010.

On November 14, 2019, the BOD of the Parent Company, and on December 20, 2019, the Stockholders of the Parent Company, approved the amendment of the Articles of Incorporation of the Corporation pursuant to an increase in authorized capital stock from P50.00 million divided into 50.00 million common shares at par value of P1.00 per share to P5.05 billion divided into 5.05 billion common shares at par value of P1.00 per share.

This amendment and increase in capital stock were pursued in connection with the issuance of 4.10 billion shares of the Parent Company in exchange for shares of stock in OTHI and P21 (the “Share Swap Transaction”).

On December 20, 2019, the Parent Company and the stockholders of OTHI and P21 entered into a Share Purchase Agreement, pursuant to which, the two major shareholder of the Parent Company will acquire additional 4.10 billion shares of the Parent Company at a price of P20 per share for a total purchase price of P82.00 billion. As consideration for its acquisition, the two major shareholders will exchange their respective ownership in OTHI and P21. Accordingly, the 2.10 billion shares with a P1.00 par value of the Parent Company to be swapped with 86.40 million shares of OTHI with a par value of P100 per share while the 2.00 billion shares of Parent Company to be swapped with 871.00 million common shares of P21 with a par value of P1.00 per share.

As a result of the Share Swap Transaction, the Parent Company will legally and/or beneficially owns 67% of the outstanding shares of each of OTHI and P21.



OTHI owns controlling shares in MOGRC, which holds 30% plus one share in National Grid Corporation of the Philippines (“NGCP”). P21 owns controlling shares in CHPC, which in turn owns 30% minus one share in NGCP. The Share Swap Transaction was undertaken to formally consolidate the two major shareholders’ ownership and control of NGCP through a common corporate structure. Accordingly, the effective ownership of the Parent Company in NGCP will be 40.20%, with control of 60% voting rights through its subsidiaries MOGRC and CHPC.

On March 26, 2020, the proposed share-swap transaction was approved by the Philippine Competition Commission on the grounds that it will not likely result in substantial lessening of competition in the Philippine market.

On May 28, 2021, the SEC approved the increase in the Parent Company’s authorized capital stock from P50.00 million to P5.05 billion. Consequently, the 4.10 billion common shares for the share swap transaction were issued at a price of P20 per share on the same date. The incremental costs directly attributable to the issuance of common shares amounting to P206.66 million is recognized as a deduction from additional paid-in capital.

On June 30, 2021 and on August 10, 2021, the Parent Company’s BOD resolved and stockholders respectively approved the increase in authorized capital stock from P5.05 billion to P5.30 billion, with the increase of 250.00 million to be divided into 250.00 million common shares at a par value of P1.00 per share.

This increase is for the Company to conduct a follow-on offering of its shares to achieve the target public float of twenty percent (20%) of the outstanding capital stock of the Company and for other business purposes.

The above increase was approved by the SEC on August 25, 2021. Consequently, of the 250.00 million increase in shares of the Company, 25% of which was subscribed and paid by the Company’s major shareholders amounting to P62.50 million.

On August 10, 2021, the Company’s BOD approved and authorized the offer and issuance of 1,053,500,000 common shares at an offer price of up to P29 per share, and also grants over-allotment option pursuant to which a stabilizing agent or its affiliate has the right to purchase up to 101 million common shares of the Company’s owned by its major shareholders.

On August 12 and September 10, 2021, the Company’s shareholders have also secured the Certificate Authorizing Registration with the Bureau of Internal Revenue (BIR) in order to transfer in the name of the Company the following shares:

(i) 86,430,000 common shares in OTHI representing 67% of its total capital stock; and (ii) 871,000,000 common shares in P21 representing 67% of its total capital stock.

The details in the equity interest of the Parent Company in its subsidiaries after the Share Swap are as follows:

	Percentage of Ownership		Country of Incorporation
	Direct	Indirect	
OneTaipan Holdings, Inc. (“OTHI”)	67.0%	-	Philippines
Pacifica21 Holdings, Inc. (“P21”)	67.0%	-	Philippines
Monte Oro Grid Resources Corporation (“MOGRC”)*	-	67.0%	Philippines
Calaca High Power Corporation (“CHPC”)**	-	67.0%	Philippines
National Grid Corporation of the Philippines (“NGCP”)**	-	40.2%	Philippines

\* Indirectly owned through OTHI

\*\* Indirectly owned through P21

\*\*\* Indirectly owned through MOGRC and CHPC

OTHI is 67% directly owned subsidiary of the Parent Company and was incorporated and registered with Philippine SEC on February 23, 2010. OTHI's primary purpose is to acquire by purchase, exchange, assignment or otherwise, and to sell, assign, transfer, exchange, lease, let, develop, mortgage, pledge, deal in and with and otherwise operate, enjoy and dispose of, all properties of every kind and description and whatever situated and to the extent permitted by law.

MOGRC is a wholly-owned subsidiary of OTHI and was incorporated and registered with Philippine SEC on August 29, 2006. MOGRC's primary purpose is to invest or hold interests in the shares of stocks of companies engaged in or proposing to engage in infrastructure projects, whether as proponent, equity investor or financial or technical advisor and to do all acts and things necessary to carry out the foregoing purpose.

P21 is 67% directly owned by the Parent Company and was incorporated and registered with Philippine SEC on May 12, 2008. P21's purpose is to invest or acquire interest, purchase, own or hold directly or indirectly shares of stock, debentures or securities in other companies including related services and business activities.

CHPC is a wholly-owned subsidiary of P21 and was incorporated and registered with Philippine SEC on December 15, 2006. CHPC's primary purpose is to engage in the general business of operating, managing, maintaining, and rehabilitating energy systems and services from gas, steam and electricity including related services and business activities.

NGCP is 30%-owned each by MOGRC and CHPC and was incorporated in the Philippines and registered with Philippine SEC on February 21, 2008 primarily to operate and maintain a nationwide transmission grid throughout the Philippines; to provide open and non-discriminatory access to the transmission system to all authorized electricity distributors and electricity users; and to carry on all business incidental to the same.

On October 14, 2021, the listing of the Offer Shares was approved by the Philippine Stock Exchange. The Philippine SEC approved the listing of SGP on October 20, 2021.

On November 10, 2021 SGDI, under the symbol "SGP", the Company publicly listed its 1,053,500,000 shares from its Follow-On Offering (FOO) on the Philippines Stock Exchange with overallotment option of up to 101,000,000 secondary shares at PHP 12.00 per common share.

The Parent Company will use the proceeds of the FOO to directly subscribe to non-voting preferred shares that will be issued by NGCP. Proceeds from the issuance of the non-voting preferred shares will be used by NGCP to finance its capital expenditure requirements and related costs and expenses.

On April 4, 2022, the Parent Company used the proceeds of the FOO to subscribe to 203,630,000 non-voting preferred shares of National Grid Corporation of the Philippines (NGCP) with a par value of P1.00 per share at a subscription price of P60.10/share or a total subscription price of P12,238,163,000.

The subscription will give the Parent Company a direct shareholding in NGCP of 9.240% of the latter's outstanding capital stock. The Parent Company will be entitled to dividends as a direct shareholder of NGCP, and this is in addition to the dividends that the Parent Company already indirectly receives from NGCP through the holding entities.

On 12 April 2022, the Parent Company paid P3,059,540,750, representing twenty-five percent (25%) of the total subscription price. On June 9, 2022, the Parent Company paid the balance of the total subscription price in the amount of P9,178,622,250.

On 07 June 2022, the SEC approved the Amendment of Articles of Incorporation and Increase in Authorized Capital Stock of NGCP for the issuance of 203,630,000 Non-Voting Preferred Shares with a par value of P1.00 per share. The Company subscribed to the 203,630,000 Non-Voting Preferred Shares of NGCP, using the proceeds from the FOO. Proceeds from the issuance of the non-voting preferred shares will be used by NGCP to finance its capital expenditure requirements and related costs and expenses.

On February 28, 2008, the Group, through NGCP entered into a Concession Agreement with Power Sector Assets and Liabilities Management Corporation (PSALM) and the National Transmission Corporation (TRANSCO) granting the Group as Concessionaire the right to take over and operate the whole of TRANSCO's regulated transmission business was a going concern and be the sole representative of Regulated Entity before the Philippine Energy Regulatory Commission (ERC). The commencement date of the Concession Agreement is on January 15, 2009 and shall expire on the 25<sup>th</sup> anniversary of the commencement date. The Concession can be extended but not to exceed beyond the 50<sup>th</sup> anniversary of the commencement date or for longer than the remaining term of the Group's franchise (see Note 4).

In accordance with the requirements of the SEC for the purpose of the FOO, the Group issued consolidated financial statement as at and for the years ended December 31, 2020, 2019 and 2018, considering the effect of the Share Swap Transaction as disclosed in Note 2 to the consolidated financial statements.

SGP indirectly controls 60% is the outstanding capital stock of NGCP, SGP's sole operating asset with an effective equity interest of 40.2%.

There are no transactions between the Company and any of its directors, executive officers, or stockholders owning more than five (5%) of its outstanding capital stock and any member of their immediate family.

The Company has no subsisting construction, consultancy, sub-contracting, supply, sales or other major agreements with any party. It has no material commitment for any capital expenditure.

In connection with the Company's FOO last November 10, 2021, the Company has hired several employees effective September 1, 2021.

There are no major risks that the Company is involved in other than the credit and liquidity risks discussed in Note 24 of the Notes to Financial Statements.

## **Item 2. Properties**

SGP does not own any property such as real estate, plant, equipment, mines, patents and the like. SGP does not intend to acquire any real property in the next twelve (12) months. In the absence of any property, the information required on any mortgage, lien or encumbrance and the limitations on ownership or usage over any property is inapplicable to SGP.

## **Item 3. Legal Proceedings**

As of December 31, 2023 and as of this date, there are no pending legal proceedings which involve SGP, MOGRC, CHPC, OTHI, P21 or any of its properties.

NGCP is party to several legal proceedings and claims that have arisen in the ordinary course of business, including those set out below. NGCP is involved in legal proceedings from time to time.

Civil Cases and Arbitration Proceedings as of December 31, 2021, there are 11 cases for damages, recovery of possession, collection, declaratory relief, and injunction filed by NGCP and two cases filed against NGCP which are pending with the different trial courts nationwide. The total estimated amount of claims by NGCP for these civil cases is approximately ₱480 million. There are three cases filed against NGCP involving recovery of possession of properties that are allegedly being occupied by NGCP without right, with total claims of approximately ₱12.6 million.

NGCP was involved in two arbitration proceedings before the Construction Industry Arbitration Commission ("CIAC"). In the first CIAC arbitration proceeding commenced against NGCP by Kalpataru Power Transmission Limited ("KPTL"), the CIAC tribunal's February 20, 2017 Final Award stated that KPTL is entitled to actual damages and the return of retention money. On appeal, the Court of Appeals deleted all actual damages previously awarded in favor of KPTL amounting to approximately ₱84 million but ordered NGCP to release the retention money to KPTL amounting to approximately ₱159 million. Both NGCP and KPTL filed Petitions for Review before the Supreme Court, which petitions have subsequently been consolidated. The consolidated petitions are pending resolution by the Supreme Court.

As regards the second CIAC arbitration commenced by Hyundai Engineering Co., Ltd. ("HEC") against both NGCP and TRANSCO in respect of its approximately ₱77.9 million claim, the case was dismissed by the CIAC tribunal as against NGCP on August 8, 2014 following a May 27, 2014 Court of Appeals ruling that there was no arbitration agreement between HEC and NGCP. HEC's appeal before the Court of Appeals was dismissed. HEC filed a further appeal before the Supreme Court, which is pending resolution.

On February 28, 2008, NGCP, PSALM and TRANSCO entered into a Concession Agreement, which granted NGCP the Concession to operate the country's power transmission network. In consideration for the grant of the Concession, NGCP agreed to pay PSALM US\$3.950 billion as Concession Fee, 25% (or at NGCP's option, a higher percentage) of which was payable at the Commencement Date, with the balance payable to PSALM in semi-annual installments ("Deferred Payments") in accordance with Schedule 5 of the Concession Agreement. Moreover, Section 6.07 of the Concession Agreement granted NGCP the option to prepay any Deferred Payment or any portion thereof, as well as the right to determine which Deferred Payment or portion thereof it opted to prepay, so long that there is no amount due to PSALM or TRANSCO under the Concession Agreement (including the Deferred Payments) and other Transaction Documents "that are in arrears". On July 15, 2013, NGCP formally exercised its option to prepay under Section 6.07 of the Concession Agreement, paying the amount of ₱57,883,053,062.96, representing the Deferred Payments for the period covering January 15, 2014 to January 15, 2024 (the 10th to 30th Deferred Payments). PSALM accepted the prepayment. In a letter dated August 15, 2013, PSALM acknowledged NGCP's compliance with the provision of Sections 6.07 (Prepayment) and 8.05 (Indebtedness). On October 3, 2013, PSALM forwarded to NGCP an official receipt acknowledging its receipt of the prepayment without any qualification or reservation.

In May 2017, or almost four years after accepting NGCP's prepayment, TRANSCO and PSALM demanded that NGCP settle its alleged outstanding obligations to TRANSCO in the amount of around ₱3.9 billion. These alleged outstanding obligations to TRANSCO supposedly invalidated NGCP's exercise of its option to prepay. NGCP disputed this claim stating that none of the obligations to TRANSCO was due or in arrears at the time of the prepayment. On January 15, 2018, pending settlement negotiations between the parties, PSALM unilaterally set aside the prepayment, declared the prepayment invalid and informed NGCP that PSALM had applied the prepayment of ₱57.88 billion to "the maturities under the [Concession Agreement] from January 2014 to January 2018" in accordance with "the Deferred Payment Amortization Schedule prior to the 15 July 2013 remittance." On February 14, 2018, NGCP commenced an arbitration administered by the Singapore International Arbitration Centre ("SIAC") against PSALM and TRANSCO relative to the implementation and interpretation of the parties' February 28, 2008 Concession Agreement. In the arbitration, NGCP seeks a declaration that the prepayment that it had made on July 15, 2013 amounting to ₱57.88 billion is valid, and seeks the payment of other monetary claims of approximately ₱4 billion relating to the proper Concession Fee adjustment amount for "Projects Under Construction", sale of "Sub-Transmission Assets" and settlement of "Excluded Liabilities" and/or "Retained Obligations" which should have been borne by TRANSCO under the Concession Agreement, but were advanced by NGCP. NGCP also seeks a declaration that (i) it, and not TRANSCO, has the exclusive mandate to prepare the Transmission Development Plan (TDP), which is the principal document that lays out the planning, management, and operations (including capital expenditure plans) of the country's national transmission system; and that (ii) TRANSCO may not, for the duration of the Concession, use or otherwise commit the "Transmission Assets" (as defined in the Concession Agreement) in a manner that would restrict NGCP's right to use those assets. On the other hand, PSALM and TRANSCO seek a declaration from the arbitral tribunal that NGCP is in Concessionaire Default for having allegedly violated the nationality restrictions applicable to public utilities under Philippine law (including the Philippine Constitution and the Philippine Anti-Dummy Law). Specifically, PSALM and TRANSCO allege that certain former foreign nationals employed by NGCP occupied prohibited managerial, operational, or control positions in violation of the Philippine Anti-Dummy Law. Apart from a declaration of Concessionaire Default, PSALM and TRANSCO seek a declaration that all of NGCP's claims are inadmissible due to these alleged breaches, i.e., that NGCP be declared disqualified from enjoying the rights and benefits under the Concession Agreement, including the right to bring any claim in arbitration arising from and/or in connection with the Concession Agreement and/or Philippine laws.

PSALM and TRANSCO thus seek the dismissal of all of NGCP's claims and reliefs and a declaration that NGCP's prepayment was void and without legal basis. They seek payment of the interest amounts that should have been paid after July 15, 2013 on the basis that the prepayment was invalid, the amounts due and in arrears to TRANSCO when the prepayment was made, as well as interest on those amounts. They also seek payment of the installments for the Concession Fee that were not validly prepaid. 212 PSALM and TRANSCO further dispute NGCP's monetary claims and seek counterclaims of ₱2.7 billion as part of TRANSCO's Excluded Receivables, plus interest. They disagree with NGCP's proposition on how to calculate the Concession Fee adjustment for the sale of Sub-Transmission Assets and ask for an adjustment of the Concession Agreement in their favor in the amount of USD26,973,945.73 for Projects Under Construction. They seek reimbursement of their costs and expenses in the arbitration. In addition, PSALM and TRANSCO dispute NGCP's claims with respect to the TDP and the use of the Transmission Assets, and seek a declaration that NGCP breached its obligations under the Concession Agreement regarding: (i) its IPO obligations, (ii) Permitted Indebtedness, (iii) its insurance obligations; (iv) its obligation to consult TRANSCO in preparing the TDP consistent with DOE Order No. DO2017-04-0004 ("DOE Order"), which gives TRANSCO broad powers to obtain documents and requires NGCP to consult and actively involve TRANSCO in the preparation of the TDP, as well as obtain a formal certification from TRANSCO that it was so consulted; (v) the maintenance of separate accounts for Related Businesses; and (vi) compliance with applicable law on eminent domain (considering that NGCP had filed expropriation complaints against Government Owned and Controlled Corporations).

Hence, the arbitration involves issues relating to the validity of NGCP's prepayment on July 15, 2013, some adjustments to the Concession Fees, as well as the parties' respective monetary claims. It also involves the parties' respective claims of breach by the other party of certain provisions of the Concession Agreement, including NGCP's alleged violation of nationality restrictions and its right, in light thereof, to bring claims in the arbitration. The arbitration is ongoing and NGCP expects it to be concluded by the end of 2022 or by early 2023. In a related suit, shortly after PSALM unilaterally set aside the prepayment and prior to initiating the SIAC arbitration, NGCP filed a petition for interim relief before the Regional Trial Court of Quezon City. Before the constitution of the tribunal in the SIAC arbitration, a Temporary Order of Protection and, subsequently, a Writ of Preliminary Injunction were issued by the Regional Trial Court of Quezon City to enjoin PSALM and TRANSCO from, among other things, declaring NGCP in default of the Concession Agreement, in an effort to preserve the status quo. The Writ of Preliminary Injunction remains effective to date, which means that PSALM and TRANSCO cannot declare NGCP in default of the Concession Agreement unless and until the Writ of Preliminary Injunction is modified or revoked by the tribunal in the SIAC arbitration.

PSALM and TRANSCO appealed the issuance of the Writ to the Court of Appeals, which dismissed the appeal in a Decision dated September 25, 2019 for lack of jurisdiction given that the arbitral tribunal had already been constituted on April 12, 2018. The Court of Appeals' Decision has since attained finality as PSALM and TRANSCO no longer appealed to the Supreme Court. NGCP believes that its claims in the arbitration are well-founded. NGCP did not violate the Concession Agreement, nor the Philippine Anti-Dummy and nationality laws. It is 60% owned by Filipinos, consistent with the Constitution. NGCP's engagement of foreign nationals for technical positions was lawful and was specifically contemplated by Republic Act No. 9136, the EPIRA. These foreign nationals did not intervene in NGCP's management, operation, administration or control.

The liabilities which PSALM and TRANSCO allege to be outstanding form part of their counterclaims in the arbitration. NGCP believes these were neither due, let alone in arrears, in July 2013 when the prepayment was made, nor are these due to TRANSCO under the Concession Agreement and other transaction documents. They continue to be not due and are contingent in the sense that they are subject of pending cases before the ERC or would arise only should the arbitral tribunal rule that these amounts are part of the "Excluded Receivables." NGCP's monetary and non-monetary claims are based on the provisions of the Concession Agreement. For instance, NGCP is entitled to an adjustment of the Concession Fees for the sale of the Sub-Transmission Assets and a further adjustment relating to the "Projects Under Construction." NGCP is likewise asking for the 2013 reimbursement of amounts it advanced for "Excluded Liabilities" and/or "Retained Obligations" which should have been borne by TRANSCO under the Concession Agreement.

NGCP believes it did not breach the Concession Agreement on the other grounds alleged by PSALM and TRANSCO. First, Section 8 of Republic Act No. 9511 (the Franchise) allows NGCP to apply with the ERC for a reasonable extension of the 10-year period, and therefore NGCP did not fail to comply with its IPO obligations. Moreover, NGCP may comply with Section 8 either through listing and making a public offering of the shares representing at least 20% of its outstanding capital stock or a higher percentage that may hereafter be provided by law, or through listing in the PSE of any company which directly or indirectly owns or controls at least 30% of the outstanding shares of stock of NGCP. Second, NGCP did not violate its obligations regarding Permitted Indebtedness. On July 8, 2013, NGCP provided PSALM information regarding the financing that NGCP intended to obtain for the funding of the prepayment, specifically, information on the creditor, amount of the financing, maturity date and interest, as well as the other conditions under Section 8.05. PSALM and TRANSCO did not object to NGCP's use of financing to make the prepayment until the arbitration. Third, as regards insurance, insurance policies have been issued by the Government itself and cover the period from 2019 to present. Moreover, the consequences for violation of the Concession Agreement's provisions on insurance are particularized under Section 9.06 of the Concession Agreement. Fourth, NGCP is exclusively mandated under Philippine law and the Concession Agreement to prepare the TDP. Therefore, TRANSCO's invocation of the DOE Order, which effectively gives TRANSCO veto rights with respect to the preparation of the TDP, violates its exclusive mandate. Fifth, the accounting system TRANSCO complains of was its own, and NGCP had to migrate to a new system to maintain separate audited accounts for Related Businesses. Finally, land owned by a Government-Controlled and/or Government-Owned entity that is used for private and/or proprietary purposes may be lawfully expropriated for projects with a public purpose. However, there is no assurance that the arbitral tribunal will accept NGCP's position and rule favorably on its claims and against the counterclaims of PSALM and TRANSCO. Moreover, a party prevailing on its monetary claims may not necessarily prevail on its non-monetary claims.

#### **Item 4. Submission of Matters to a Vote of Security Holders**

a) On December 22, 2023, SGP conducted its annual stockholders' meeting and submitted the following matters to a vote of security holders:

- I. Approval of the Minutes of the Previous Annual Stockholders' Meeting held on October 20, 2022
- II. Ratification of the Corporate Acts of the Board of Directors and Management since the last Annual Stockholders' Meeting on October 20, 2022
- III. Election of Directors for 2023-2024:

Director	Mr. Henry T. Sy, Jr.
Director	Mr. Robert G. Coyiuto, Jr.
Director	Atty. Paul P. Sagayo Jr.
Director	Atty. Vicente D. Gerochi IV
Independent Director	Atty. Jose Perpetuo M. Lotilla
Independent Director	Atty. Francis Saturnino C. Juan
Independent Director	Atty. Luis Jose P. Ferrer

- IV. Management Report and Presentation of the Audited Financial Statements of the Corporation for the Year Ended 31 December 2022
- V. Appointment of R.G. Manabat & Co. (an affiliate of KPMG) as External Auditor for 2023
- VI. Other Matters
- VII. Adjournment

## PART II – OPERATIONAL AND FINANCIAL INFORMATION

### Item 5. Market for Issuer's Common Equity and Related Stockholder Matters

#### (1) Market Information

##### Stock Prices

	High	Low
<b>2021</b>		
1 <sup>st</sup> Quarter	P345.00	P333.00
2 <sup>nd</sup> Quarter	P395.80	P395.80
3 <sup>rd</sup> Quarter	P -	P -
4 <sup>th</sup> Quarter	P13.30	P13.08
<b>2022</b>		
1 <sup>st</sup> Quarter	P12.28	P12.16
2 <sup>nd</sup> Quarter	P12.26	P12.16
3 <sup>rd</sup> Quarter	P11.78	P11.38
4 <sup>th</sup> Quarter	P11.28	P11.10
<b>2023</b>		
1 <sup>st</sup> Quarter	P10.80	P10.66
2 <sup>nd</sup> Quarter	P 9.10	P 9.03
3 <sup>rd</sup> Quarter	P 8.56	P 8.22
4 <sup>th</sup> Quarter	P 6.59	P 6.39

#### (2) Holders

SGP has one hundred fifty-four (154) shareholders. The top 20 shareholders of SGP as of December 31, 2023 are as follows:

#### TOP 20 STOCKHOLDERS AS OF DECEMBER 31, 2023

NO. OF SHARES	SHAREHOLDERS
2,050,464,288	SY JR., HENRY T.
2,050,268,450	COYIUTO JR., ROBERT G.
738,922,460	PCD NOMINEE CORP – FIL
406,449,102	PCD NOMINEE CORP – NON-FIL
7,280,500	R. COYIUTO SECURITIES INC.
2,685,600	SYSMART CORPORATION
1,758,300	CAROUSEL HOLDINGS INC.
1,483,980	TAN, SAMANTHA LOUISE A.
1,472,477	UNITED ENGINEERS (MALAYSIA) BERHAD
1,077,520	MALAYCO, INC.
1,016,020	TAN, DAVID IAN A.
865,000	SHAGHAYEGH NIKAEIN
467,700	MARMON HOLDINGS INC.
350,000	RICHARD D. UYAN OR ROBERT D. UYAN OR RODNEY D. UYAN
250,000	BERNARD SO CHUA CHIACO
100,000	SPAKOWSKI, LUCIA
80,000	RODNEY D. UYAN OR JOVIE S. UYAN OR DANIELLE AUDREY UYAN OR DENZELL CARY S. UYAN
58,200	LUHMANN, BERKLEY M.
42,900	SCHOLEY, GEORGE T.
40,400	A. R. GARCIA & CO., INC

The foreign stockholders of SGP and their corresponding shareholdings as of December 31, 2023 are as follows:

SHAREHOLDERS	NATIONAL	NO. OF SHARES
AWAD, KENNETH RICHARD	American	4,000
BIRMINGHAM, T.J.	American	4,000
FOSTER, FRANK	American	3,000
KLINGER, JOHN	American	2,000
LUHMANN, BERKLEY M.	American	58,200
MEARS, MABEL E.	American	10,000
METROPOLITAN INVESTMENT CORPORATION	American	10,000
MITCHELL, PETER	American	2,000
MITCHELL, WILLIAM E. &/OR MITCHELL, MARGARET A.	American	5,000
SCIPLE, JAMES O.	American	1,000
SCHOLEY, GEORGE T.	American	42,900
SCHOLEY, GUY E.	American	5,000
F.C. HAGEDORN & CO, INC.	American	1,000
LILAY, JOSEPH	Chinese	4,000
OH CHU KIONG	Chinese	15,000
H.E. BENNETT SECURITIES, INC. A/C NO. 2588	Chinese	1,000
MANDRIAK, ROGER	Canadian	8,600
PCD NOMINEE CORPORATION	Non-Filipino	406,449,102
NASSR JUAN D.	Malaysian	10,000
UNITED ENGINEERS (MALAYSIA) BERHAD	Malaysian	1,472,477
SHAGHAYEGH NIKAEIN	Iranian	865,000
YAM SENG LAM	Malaysian	1
DUMMERMUTH, WALTER (DECEASED)	Swiss	3,000
<b>Total Foreign Shareholdings</b>		<b>408,976,280</b>
<b>Total Outstanding Capital Stock</b>		<b>5,265,866,000</b>
<b>Percentage of Total Foreign Ownership</b>		<b>7.77%</b>

(3) Dividends

On March 8, 2023, the BOD of the Parent Company approved the declaration of P0.1737 cash dividends per share for the first (1<sup>st</sup>) quarter of 2023 totaling to P914.68 Million. These cash dividends were paid to shareholders of record as of March 23, 2023 on April 13, 2023.

On June 21, 2023, the BOD of the Parent Company approved the declaration of P0.1737 cash dividends per share for the second (2<sup>nd</sup>) quarter of 2023 totaling to PhP914.68 million. These cash dividends were paid to shareholders of record as of July 6, 2023 on July 21, 2023.

## Item 6. Management's Discussion and Analysis or Plan of Operation

On March 15, 2022, the Company entered into a Shared Services Agreement with MOGRC, CHPC, OTHI and P21, wherein the Company shall render monthly management, consulting and financial advisory services for a period of five (5) years commencing January 1, 2022, unless otherwise cancelled or extended by mutual agreement of the Company and any of the parties. In consideration of the services rendered, the Company shall receive a monthly fee of P1,000,000 from each entity.

In addition to the information disclosed above, the Company further discloses that:

- a. The Company does not anticipate any cash flow or liquidity problem within the next 12 months. The Company is not in default in any note, loan, lease or other indebtedness or financing arrangement requiring it to make payments.
- b. The Company does not have or is not aware of any trends, demands commitments, events or uncertainties that will have a material impact on its liquidity.



- c. At present, the Company has no material commitments for any capital expenditure.

The Company used the proceeds of the FOO to directly subscribe to non-voting preferred shares issued by NGCP. Proceeds from the issuance of the non-voting preferred shares will be used by NGCP to finance its capital expenditure requirements and related costs and expenses.

- d. There are no significant elements of income or loss that did not arise from its operations. For the past several years, the Company has continuously sustained losses due to lack of income stream attributable to its non-operation.

On November 10, 2021 SGDI, under the symbol “SGP”, the Company publicly listed its 1,053,500,000 shares from its Follow-On Offering (FOO) on the Philippines Stock Exchange with overallotment option of up to 101,000,000 secondary shares at P12.00 per common share.

- e. All expenses of the Company are current and the Company does not expect any direct or contingent financial obligation that is substantial or material.

- f. The following is an explanation of material changes in certain items of the Company’s financial statements:

## **2023 vs. 2022**

### ***Intangible Assets - net***

Intangible assets as of December 31, 2023 amounted to P378.01 billion, 14.06% higher than P331.43 billion as of December 31, 2022. The increase is primarily due to the additional expenditures incurred by NGCP on priority and other major projects, such as Visayas SS Upgrading Project2, Hermosa - San Jose 500KV TLP, Cebu-Bohol Interconnection Project, TUY 500KV SSP Stage 1 (Formerly Calaca-Dasma), San Francisco-Tago 138 KV TLP, Laguindingan 230 KV Substation Project, North Luzon SS Upgrading Project 2, Mindanao Substation Upgrading Project 2, Mindanao Substation Expansion 4 Project, and Marilao EHV Substation Project.

### ***Receivables***

Receivables as of December 31, 2023 consist of:

Receivables – net of current portion	P	19.82	billion
Receivables – current portion		<u>10.21</u>	<u>billion</u>
<b>Total</b>	<b>P</b>	<b>30.03</b>	<b>billion</b>

Receivables as of December 31, 2023 amounted to P30.03 billion, 1.35% lower than P30.44 billion as of December 31, 2022. This is due to decrease in AS Cost and AS VAT billing for the period.

### ***Other noncurrent assets***

Other non-current assets as of December 31, 2023 amounted to P3.04 billion, 16.04% lower than P3.62 billion as of December 31, 2022. This is primarily due to amortization of deferred Input VAT and reclass of non-current to current project prepayments.

### ***Cash and cash equivalents***

Cash and cash equivalents as of December 31, 2023 amounted to P9.91 billion, 104.39% higher than P4.85 billion as of December 31, 2022. The is mainly due to newly drawn Term Loans offset by settlement of liabilities/obligations.

### ***Other current assets***

Other current assets as of December 31, 2023, amounted to P29.72 billion, 5.99% lower than P31.62 billion as of December 31, 2022. This is mainly due to recoupment of project prepayments and reclassification of court deposits with court decisions to Asset Under Construction (AUC) offset by higher Input Value Added Tax (VAT).

**Loans Payable**

Loans Payable as of December 31, 2023 consist of:

Loans Payable – net of current portion	P169.77 billion
Current portion of loans payable	<u>23.74 billion</u>
<b>Total</b>	<b>P193.51 billion</b>

Loans Payable as of December 31, 2023 amounted to P193.51 billion, 15.81% higher than P167.09 billion as of December 31, 2022. This is mainly due to new loan drawn downs to fund additional CAPEX.

**Retirement benefits liability**

Retirement benefits liability as of December 31, 2023 amounted to P2.62 billion, 24.94% higher than P2.09 billion as of December 31, 2022. This is due to the service cost, interest expense and actuarial loss for the period based on the actuarial valuation as of December 31, 2023.

**Other current and other non-current liabilities**

Other Current and noncurrent liabilities as of December 31, 2023 consist of:

Other noncurrent liabilities	P1.56 billion
Other current liabilities	<u>18.22 billion</u>
<b>Total</b>	<b>P19.78 billion</b>

Other current and other noncurrent liabilities as of December 31, 2023 amounted to P19.78 billion, 20.78% higher than P17.75 billion as of December 31, 2022. The increase in other current liabilities is mainly due to additional retention payable on on-going projects offset by the decrease in other noncurrent liabilities mainly due to reclassification of the Finance lease to current portion and settlement of Advances for Construction.

**Trade and other current payables**

Trade and other current payables as of December 31, 2023 amounted to P40.05 billion, 1.65% higher than P39.41 billion as of December 31, 2022. This is mainly due to increase in GRIR arising from higher Goods receipts and/or services and higher Output VAT payable.

**Income**

Operation services revenues as of December 31, 2023 totaled to P53.00 billion, 14.27% lower than P61.82 billion as of December 31, 2022, since all revenue and accrual on recovery on new IMAR with ERC Order received on April 29, 2022 has been booked in June 2022. As of date, the recovery is still pending for ERC approval.

Interest income as of December 31, 2023 totaled to P118.89 million, 14.87% lower than P139.66 million as of December 31, 2022. This is due to higher short-term investments and interest rates during the year.

**Operating expenses**

For the year ended December 31, 2023, Operating Expenses totaled to P23.62 billion, 14.24% higher than P20.68 billion as of December 31, 2022 primarily because of higher Repairs and Maintenance, Salaries, wages and employee benefits, insurance, Supervision and regulatory fees offset by lower Public relation and corporate social responsibility and Outside services

Repairs and maintenance for the year ended December 31, 2023 totaled to P2.63 billion, 78.20% higher than P1.47 billion as of December 31, 2022 mainly due to account of Maintenance of Substation Equipment/Transmission Lines as a result of Comprehensive maintenance of GIS Substations

Salaries, wages and employee benefits for the year ended December 31, 2023 totaled to P5.44 billion, 11.80% higher than P4.87 billion as of December 31, 2022. This is due to salary adjustments effective March 1, 2023

Insurance expense for the year ended December 31, 2023 totaled to P982.47 million, 41.60% higher than P693.85 million as of December 31, 2022, mainly due to higher premium payment for Industrial All Risk insurance.

Supervision and regulatory fees for the year ended December 31, 2023 totaled to P590.82 million, 26.13% higher than P468.43 million as of December 31, 2022. This is due higher paid-up capital as a result of the issuance of preferred shares.

Public relations and corporate social responsibility for the year ended December 31, 2023 totaled to P249.14 million, 63.45% lower than P681.73 million as of December 31, 2022. This is due to lower expenses for Public Relations during the period.

Outside services for the year ended December 31, 2023 totaled to P163.02 million, 60.14% higher than P408.96 million as of December 31, 2022. This is mainly due to lower services cost relating to arbitration in CY 2023.

### ***Interest Expense***

Interest Expense for the year ended December 31, 2023 totaled to P5.76 billion, 1.97% higher than P5.65 billion as of December 31, 2022 mainly due to reclassification of IDC from completed projects to Interest expense.

## **2022 vs. 2021**

### ***Intangible Assets-net***

Intangible assets as of December 31, 2022 amounted to P331.43 billion, 10.68% higher than P299.46 billion as of December 31, 2021. The increase is primarily due to the additional expenditures incurred on NGCP priority and other major projects, such as Cebu-Bohol Interconnection Project, Mindanao-Visayas Interconnection Project, Hermosa-San Jose 500KV TLP, CNP230KV Bb Proj-Stage3 (Negros-Cebu), Kauswagan-Lala 230KV TLP, Visayas SS Upgrading Project 2, Mindanao Substation Upgrading Project 2, Mindanao Substation Expansion 4 Project, South Luzon Substation Upgrading Project 2 and Taguig EHV Substation Project.

### ***Receivables***

Receivables as of December 31, 2022 consist of:

Receivables – net of current portion	P	13.81	billion
Receivables – current portion		<u>16.63</u>	<u>billion</u>
<b>Total</b>	<b>P</b>	<b>30.44</b>	<b>billion</b>

Receivables as of December 31, 2022 amounted to P30.44 billion, 80.55% higher than P16.86 billion as of December 31, 2021. This is primarily due to the accrual of incremental iMAR 2020 for CY 2020 and 2021.

### ***Other noncurrent assets***

Other non-current assets as of December 31, 2022 amounted to P3.62 billion, 18.28% lower than P4.43 billion as of December 31, 2021. This is primarily due to amortization of deferred Input VAT and reclass of non-current to current project prepayments.

### ***Cash and cash equivalent***

Cash and cash equivalents as of December 31, 2022 amounted to P4.85 billion, 76.42% lower than P20.57 billion as of December 31, 2021. This is mainly due to settlement of liabilities or obligations.

### ***Prepaid expenses and other current assets***

Prepaid expenses and other current assets as of December 31, 2022 amounted to P31.62 billion, 22.08% higher than P25.90 billion as of December 31, 2021. This is primarily due to recording/recognition of Other Deposits - Court and Project Prepayments.

### ***Loans Payable***

Loans Payable as of December 31, 2022 consist of:

Loans Payable – net of current portion	P144.47	billion
Current portion of loans payable	<u>22.62</u>	<u>billion</u>
<b>Total</b>	<b>P167.09</b>	<b>billion</b>

Loans Payable as of December 31, 2022 amounted to P167.09 billion, 10.48% higher than P151.24 billion as of December 31, 2021. This is mainly due to new loan drawn downs to fund additional CAPEX.

***Retirement benefits liability***

Retirement benefits liability as of December 31, 2022 amounted to P2.09 billion, 0.95% lower than P2.11 billion as of December 31, 2021. This is due to lesser retirement expense for the period based on the actuarial valuation for CY2022.

***Other current and other non-current liabilities***

Other Current and noncurrent liabilities as of December 31, 2022 consist of:

Other noncurrent liabilities	P1.75 billion
Other current liabilities	<u>16.00 billion</u>
<b>Total</b>	<b>P17.75 billion</b>

Other current and other noncurrent liabilities as of December 31, 2022 amounted to P17.75 billion, 11.08% higher than P15.98 billion as of December 31, 2021. The increase in other current liability is mainly due to additional retention payable on on-going projects offset by the decrease in other noncurrent liabilities mainly due to adjustment on the deed of sale of asset acquisitions.

***Trade and other current payables***

Trade and other current payables as of December 31, 2022 amounted to P39.41 billion, 11.24% lower than P44.40 billion as of December 31, 2021. This is due to settlement of payables.

***Income***

Operation services revenues as of December 31, 2022 totaled to P61.82 billion, 27.20% higher than P48.60 billion as of December 31, 2021.

Interest income as of December 31, 2022 totaled to P139.66 million, 117.07% higher than P64.34 million as of December 31, 2021. This is due to higher short-term investments during the year.

***Operating expenses***

For the year ended December 31, 2022, Operating Expenses totaled to P20.68 billion, 5.94% higher than P19.52 billion as of December 31, 2021 primarily because of higher Public Relation and Corporate social Responsibility, Outside services, Fuel and oil, Communication, light, and water and Insurance offset by lower Repairs and maintenance.

Public relations and corporate social responsibility for the year ended December 31, 2022 totaled to P681.73 million, 128.18% higher than P298.77 million as of December 31, 2021. This is due to higher expenses and more programs relating to public relations in 2022.

Outside services for the year ended December 31, 2022 totaled to P408.96 million, 132.64% higher than P175.79 million as of December 31, 2021. This is due to higher cost of services related to arbitration cases.

Fuel and Oil for the year ended December 31, 2022 totaled to P253.74 million, 69.99% higher than P149.27 million as of December 31, 2021 mainly due to higher gasoline and diesoline prices.

Communication, light and water for the year ended December 31, 2022 totaled to P581.56 million 29.89% higher than P447.73 million as of December 31, 2021 mainly due to higher station use offset by lower telephone and internet subscription.

Insurance expense for the year ended December 31, 2022 totaled to P693.85 million, 30.02% higher than P533.63 million as of December 31, 2021. This is due to higher principal for aviation insurance and higher medical benefits expenses.

Repairs and maintenance for the year ended December 31, 2022 totaled to P1.47 billion, 18.33% lower than P1.80 billion as of December 31, 2021 mainly due to lower Maintenance of Transmission Lines and Substation Equipment.

### **Interest Expense**

Interest Expense for the year ended December 31, 2022 totaled to P5.65 billion, 6.77% lower than P6.06 billion as of December 31, 2021 mainly due to diminishing balance of loans payable.

### **Key Performance Indicators**

Performance Indicators	Formula	Year 2023	Year 2022	Year 2021
Current Ratio	Current Assets /Current Liabilities	0.58 : 1 49,845,374,548 / 86,436,253,275	0.68 : 1 53,101,150,742 / 78,034,429,197	0.79 : 1 57,899,231,311 / 73,063,896,924
Debt to Equity Ratio	Total Liabilities / Stockholders Equity	2.00 : 1 310,720,229,166 / 155,455,267,326	2.06 : 1 281,091,862,151 / 136,399,949,107	2.37 : 1 268,431,011,636 / 113,400,144,312
Asset to Equity Ratio	Total Asset / Stockholders Equity	3.00 : 1 466,175,496,492 / 155,455,267,326	3.06 : 1 417,491,811,258 / 136,399,949,107	3.37 : 1 381,831,155,948 / 113,400,144,312
Equity to Debt Ratio	Stockholders Equity / Total Liabilities	0.50 : 1 155,455,267,326 / 310,720,229,166	0.49 : 1 136,399,949,107 / 281,091,862,151	0.42 : 1 113,400,144,312 / 268,431,011,636
Book Value per share	Stockholders Equity / Total number of shares	19.18 : 1 101,000,600,396 / 5,265,866,000	17.53 : 1 92,330,405,404 / 5,265,866,000	15.66 : 1 82,480,407,730 / 5,265,866,000
Income (Loss) per share	Net Income (Loss) / Total number of shares	2.02 : 1 10,645,372,151 / 5,265,866,000	2.85 : 1 15,021,096,101 / 5,265,866,000	2.10 : 1 9,124,966,265 / 4,351,491,000
Interest Rate Coverage Ratio	EBIT / Interest Expense	5.06 : 1 29,135,745,559 / 5,760,365,950	7.14 : 1 40,351,815,540 / 5,648,991,642	4.79 : 1 29,001,741,861 / 6,056,733,815

### **Expenses**

The Group incurred recurring normal expenses such as stock listing fees, stock transfer agent fee, lawyer's retainer fees, audit fees, business permits, filing fees and other miscellaneous expenses. Operating expenses for the year ended December 31, 2023 amounting to P23.62 billion is higher than the P20.68 billion recorded for the year 2022, primarily because of higher Repairs and maintenance, Salaries, wages and employee benefits, insurance, supervision and regulatory fees offset by lower public relation and corporate social responsibility and outside services.

### **Interest and Other Income**

The Group earns interest income from its cash deposits with the bank and short-term money placements. The Group earned P118.89 million for the year 2023.

### **Assets**

Total assets as of December 31, 2023 amounted to P466.18 billion where 89.31% is noncurrent and 10.69% is current.

### ***Liquidity and Capital Resources***

The Company's principal requirements for the liquidity are mainly for the payment of operating expenses. As of December 31, 2023, the Company's current liabilities exceeded the current assets by P24.93 billion. The current ratio decreased as compared with previous year because of the payment of normal operating expenses of the Company. At present, the Company is using these funds for its operations.

	<b><u>2023</u></b>	<b><u>2022</u></b>
Current Assets	P49,845,374,548	P53,101,150,742
Current Liabilities	86,436,253,275	78,034,429,199
Difference	(36,590,878,727)	(24,933,278,457)
Current Ratio	0.58:1.00	0.68:1.00

### **Item 7. Financial Statements**

The financial statements and schedules listed in the accompanying Index to Financial Statements and Supplementary Schedules are filed as part of this Form 17-A.

### **Item 8. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure**

During the Annual Stockholders' meeting held on December 22, 2023, the Corporation appointed R.G. Manabat & Co. (an affiliate firm of KPMG) as its External Auditor with Mr. Wilfredo Z. Palad as the partner-in-charge of the company. There are no changes in and disagreements with accountants on accounting and financial disclosure during the two most recent fiscal years.

#### **Information on Independent Accountant**

##### **(a) Audit and Audit-related fees**

For the calendar year 2023, the total amount to be billed by external auditors for professional fees and other audit related fees are estimated at P1,155,600.00 (VAT Exclusive) plus out-of-pocket expenses.

##### **(b) Tax Fees – none**

##### **(c) All other fees – none**

## PART III - CONTROL AND COMPENSATION INFORMATION

### Item 9. Directors and Executive Officers of the Company

#### (1) Directors and Executive Officers – Position/Other Directorships

The directors listed below have been recently nominated and elected during the Company's annual stockholders' meeting held on December 22, 2023.

The directors serve for a term of one (1) year until the election and acceptance of their qualified successors.

The list below includes the directorships/officerships held by the Company's directors for 2023 in other corporations. Most of these directorships/officerships have been held by the directors for the past five (5) years to the present.

<b><u>Director (Age)-Citizenship</u></b>	<b><u>Position in Company/ Position/Other Directorship</u></b>
Henry Sy, Jr., 70 <i>Director, Chairman of the Board</i> Filipino	Chairman, SM Prime Holdings, Inc. Vice Chairman, SM Investments Corporation Director, Chairman, President, Monte Oro Grid Resources Corporation Director, Chairman, President, Onetaipan Holdings, Inc. Chairman, Chief Executive Officer, SM Development Corporation Vice Chairman, National Grid Corporation of the Philippines Chairman, Bigboss Cement Inc. Chairman, President, Bigboss Holdings, Inc. Chairman, President, Cutad, Inc. Chairman, President, HSBB, Inc. Chairman, President, PJ Realty Development Corp. Director, Sybase Equity Investment Corp. Director, Multi-Realty Development Corp.
Robert G. Coyiuto, Jr., 72 <i>Director, Vice-Chairman of the Board</i> Filipino	Director, Chairman, President, Calaca High Power Corporation Director, Chairman, President, Pacifica21 Holdings, Inc. Director, Chairman, Prudential Guarantee & Assurance, Inc. Director, Chairman, PGA Automobile, Inc. Director, Chairman, PGA Cars, Inc. Director, Chairman Emeritus, Motor and Carriage, Inc. Director, Vice Chairman, National Grid Corporation of the Philippines, Chairman of Accreditation, Bids Evaluation and Award Committee of NGCP (ABEAC) Director, Vice Chairman, First Life Financial Co., Inc. Director, President, Chief Operating Officer, Oriental Petroleum & Minerals Corporation Director, Chairman, PGA Sampo Insurance Corporation Director, Canon (Philippines), Inc. Director, Petrogen Insurance Corporation Member of Philippine Stock Exchange
Vicente D. Gerochi IV, 56 <i>Director</i> Filipino	Senior Partner, SyCip Salazar Hernandez & Gatmaitan Director and Corporate Secretary, Becton Dickinson Phils., Inc. Director, Land Registration Systems, Inc. Corporate Secretary, OMD Philippines, Inc. Corporate Secretary, Omnicom Media Group Philippines, Inc.
Paul Sagayo, Jr., 67 <i>Director, President &amp; Chief Executive Officer</i> Filipino	Partner, Sagayo, Evangelista and Rebuella Law Offices Director, National Grid Corporation of the Philippines Director, Calaca High Power Corporation Director, Pacifica21 Holdings, Inc. Director, Beneficial Life Insurance, Inc. Director, ETC Realty Corporation Director, FMF Development Corporation Director, AMSEC Holdings Corporation BOT Secretary, Trinity University of Asia Corporate Secretary, JCF Investment Holdings, Inc. Corporate Secretary, Bernano Holdings, Inc.

	Independent Director, Security Bank Member, Board of Trustees of the Philippine Bar Association
Jose Perpetuo M. Lotilla, 67 <i>Independent Director</i> Filipino	Director, Carabineros Development Inc. Director, Security Bank Director, Philippine Commercial Capital, Inc.
Francis Saturnino C. Juan, 54 <i>Independent Director</i> Filipino	Energy Consultant and Lawyer, Juan Law Office Director and Treasurer, Annaben Development Corporation President, Chief Executive Officer, Power Marketplace and Exchange Corporation
Luis Jose P. Ferrer, 66 <i>Independent Director</i> Filipino	Member, Board of Trustees of The Philippine Foundation of the Brotherhood of Christian Businessmen and Professionals, Inc. (BCBP) Lecturer, Philippine Judicial Academy Senior Counsel, Carag Zaballero Llamado & Abiera Law Offices

*Note:* The directors of the Company are elected at the annual stockholders' meeting to hold office until the next annual meeting and until their respective successors have been elected and qualified.

## **(2) Significant Employees**

The Company has a President/Chief Operating Officer, Treasurer/Chief Finance Officer, Comptroller, and Audit and Risk Officer.

## **(3) Family Relationships**

The directors, executive officers, or persons nominated or chosen by the Company to become directors or executive officers are not related up to the fourth civil degree either by consanguinity or affinity.

## **(4) Involvement in Certain Legal Proceedings**

There has been no occurrence of any of the following events during the past five (5) years that are material to an evaluation of the ability or integrity of any director, person nominated to become a director, executive officer or control person of the Company:

- a) Any bankruptcy petition filed by or against any business of which such person was a general partner or executive officer either at the time of the bankruptcy or within two years prior to that time;
- b) Any conviction by final judgment, in a criminal proceeding, domestic or foreign, or being subject to a pending criminal proceeding, domestic or foreign, excluding traffic violations and other minor offenses;
- c) Being subject to any order, judgment, or decree, not subsequently reversed, suspended or vacated, of any court of competent jurisdiction, domestic or foreign, permanently or temporarily enjoining, barring, suspending or otherwise limiting his involvement in any type of business, securities, commodities or banking activities and;
- d) Being found by a domestic or foreign court of competent jurisdiction (in a civil action), the Commission or comparable foreign body, or a domestic or foreign Exchange or other organized trading market or self-regulatory organization, to have violated a securities or commodities law or regulation, and the judgment has not been reversed, suspended, or vacated.



## Item 10. Executive Compensation

For the calendar years ended 2023, 2022, and 2021, the total salaries, allowances, and bonuses paid to the directors and executive officers of the Issuer are as follows: to the Company's Chief Executive Officer and four most highly compensated executive officers.

### SUMMARY COMPENSATION TABLE

Year 2021-2023 Annual Compensation

	Year	Salary (P)	Bonus (P)	Other Annual Compensation
President and CEO and top four most highly compensated executive officers (total compensation)	2021	37,441,768.54	10,282,443.28	42,383,870.09
	2022	58,376,728.92	13,123,989.50	36,716,904.76
	2023	58,656,534.15	12,600,885.81	31,285,547.56

The directors and executive officers of SGP did not receive any compensation prior to August 2021. Prior to implementation of this Offer, the Comptroller was not classified as an Executive Officer as she was the only employee of the Company. At the Special Meeting of the Board of Directors held on August 10, 2021, the Board approved a schedule of per diem compensation for its members as discussed below. At the Organizational Meeting of the Board of Directors held on September 27, 2021, the Board, upon recommendation of the Corporate Governance Committee, approved the executive compensation of the Chairman, Vice Chairman, President and CEO, and Treasurer, CFO, and IRO. The compensation of P102,542,967.52 pertains to total annual compensation of the Chairman, Vice Chairman, President and CEO, and Treasurer, CFO, IRO, and Comptroller.

Other than a per diem of PhP50,000.00 per Board meeting, a per diem of PhP 40,000.00 per Committee meeting for the relevant Committee Chairman and a per diem of PhP 30,000.00 Committee meeting for the relevant Committee members, effective August 10, 2021, there is no arrangement pursuant to which directors of the Company are compensated, directly or indirectly, for any services provided as a director, including any additional amounts payable for committee participation or special assignments, for the last completed fiscal year and the ensuing year.

## Item 11. Security Ownership of Certain Beneficial Owners and Management

### (1) Security Ownership of Certain Record and Beneficial ("R&B") Owners (As of December 31, 2023)\*

Title of class	Name and address	No. of Shares and Nature of Ownership	Citizenship	Percentage to Equity
Common	<b>Henry Sy, Jr.</b> One Esplanade, Seaside cor. JW Diokno Blvd. SM Mall of Asia Complex Pasay City Philippines	2,050,464,288 (R&B)	Filipino	38.94%
Common	<b>Robert G. Coyiuto, Jr.</b> 1385 Palm Avenue, Dasmarinas Village, Makati City, Philippines	2,050,268,450 (R&B)	Filipino	38.94%

\*See Note in Item 5(2)

Except as stated above, the Board and Management of SGP have no knowledge of any person who is directly or indirectly the beneficial owner of more than 5% of SGP's outstanding shares of common stock or who has voting power or investment power with respect to shares comprising more than 5% of SGP's outstanding common stock.

**(2) Security Ownership of Management (Other than Nominees)**  
**(as of December 31, 2023)\***

<u>Title of class</u>	<u>Name of beneficial owner</u>	<u>Amount and nature of ownership of class</u>	<u>Citizenship</u>	<u>Percent</u>
Common	Henry T. Sy, Jr.	2,050,464,288 shares (R&B)	Filipino	38.94%
Common	Robert G. Coyoito, Jr.	2,050,268,450 shares (R&B)	Filipino	38.94%
Common	Paul P. Sagayo, Jr.	1 share (R&B)	Filipino	
Common	Vicente D. Gerochi IV	1 share (R&B)	Filipino	
Common	Jose Perpetuo M. Lotilla	1 share (R&B)	Filipino	
Common	Luis Jose P. Ferrer	1 share (R&B)	Filipino	
Common	Francis Saturnino C. Juan	1 share (R&B)		
Common	Cheryl S. Saldaña-De Leon	29 shares (R&B)	Filipino	
Total		4,100,732,772 shares		77.88%

\*See Note in Item 5(2)

**(3) Voting Trust Holders of 5% or More**

There are no persons holding more than 5% of a class under a voting trust or similar agreement.

**(4) Changes in Control**

There are no arrangements, which may result in changes in control of Company.

**Item 12. Certain Relationships and Related Transactions**

The Group, through NGCP, has related party transactions with Prudential Guaranty Assurance, Inc. (PGA) amounting to P476.12 million, P319.75 million and P282.06 million on 2022, 2021 and 2020, respectively, representing insurance premiums. The outstanding insurance payable to PGA amounting to P1.99 million and P4.15 million as of December 31, 2022 and 2021, respectively, are recorded under the "Trade and other current payables" account in the consolidated statements of financial position. This pertains to motor vehicle insurance, aviation, commercial general liability insurance, PGA protect, motor comprehensive, industrial all risk, engineering electronic equipment insurance and warehouse insurance in nature.

The Group, through NGCP, also has existing lease agreement for parking space with SM Development Corporation (SMDC) amounting to P6.74 million, P6.74 million and P3.37 million in 2022, 2021 and 2020, respectively. The outstanding balance payable to SMDC amounting to null and P1.71 million as of December 31, 2022 and 2021, respectively, are recorded under the "Trade and other current payables" account in the consolidated statements of financial position.

## **PART IV – CORPORATE GOVERNANCE**

### **Item 13. Corporate Governance**

On June 21, 2010, SGP submitted its Manual of Corporate Governance (the Manual) to the SEC and PSE in compliance with SEC Memorandum Circular No. 6 Series of 2009.

The Company has in place a performance evaluation system for corporate governance. The Compliance Officer regularly monitors and evaluates the Board of Directors' compliance with the Manual.

There are no major deviations from the Manual as of the date of this report.

The Board of Directors regularly reviews the Manual to ensure that the same remains relevant, is responsive to the needs of the organization, and is compliant with regulatory requirements.

On September 28, 2012, the Audit Committee of the Company approved the Audit Committee Charter. The members of the Audit Committee shall conduct an annual self-assessment required under SEC Memorandum Circular No. 4 Series of 2012 and the Audit Committee Charter.

On 24 March 2021, the Company filed its Material Related Transaction Policy dated 25 September 2020 with the SEC.

On 27 September 2021, the Company approved its revised Audit and Risk Committee Charter.

For the year 2023, the Company timely filed its i-ACGR on 31 May 2023.

## **PART V - EXHIBITS AND SCHEDULES**

### **Item 14. Exhibits and Reports on SEC Form 17-C**

#### **(1) Exhibits**

See accompanying Index to Exhibits

#### **(2) Reports on SEC Form 17-C**

On the following date, SGP filed SEC Form 17-C:

- (1) 08 March 2023 – Declaration of First (1<sup>st</sup>) Quarter Dividends
- (2) 29 March 2023 – Approval of the Annual Financial Reports for the year ended 31 December 2022
- (3) 10 May 2023 - Approval of quarterly financial reports as of 31 March 2023
- (4) 21 June 2023 - Declaration of Second (2<sup>nd</sup>) Quarter Dividends
- (5) 10 August 2023 - Approval of quarterly financial reports as of 30 June 2023
- (6) 05 October 2023 - Postponement of the Annual Meeting of the Stockholders on the Third Thursday of October per By-Laws and Setting of the Annual Meeting of the Stockholders to 22 December 2023, 2:00PM via teleconference with record date on 29 November 2023
- (7) 10 November 2023 – Approval of the quarterly financial report as of 30 September 2023; Setting of the Date of the Annual Stockholders' Meeting on December 22, 2023, at 2:00 PM, via videoconference, with record date on November 29, 2023; The Company received notice from the National Grid Corporation of the Philippines (NGCP) that the Energy Regulatory Commission (ERC), imposed a penalty for alleged non-compliance with Department of Energy Circular (DOE) DC2021-10-0031, entitled "Prescribing the Policy for the Transparent and Efficient Procurement of Ancillary Services by the System Operator" (AS-CSP Policy) requiring procurement of ancillary services or reserves

- (8) 15 November 2023 - The Energy Regulatory Commission (ERC) issued an Order dated 13 September 2023 on the Initial Partial Determination on the Maximum Annual Revenue (MAR) of the National Grid Corporation of the Philippines (NGCP) for years 2016 to 2020
- (9) 22 December 2023 – Results of the Annual Stockholders' Meeting and Organizational Meeting of the Board of Directors

## SIGNATURES

Pursuant to the requirements of Section 17 of the Code and Section 141 of the Corporation Code, this report is signed on behalf of the issuer by the undersigned, thereunto duly authorized, in the City of Pasig on

  
**PAUL P. SAGAYO, JR.**  
President

  
**JUSTICE LADY P. SORIANO**  
Chief Finance Officer/Treasurer


  
**MA. THERESITA YULO**  
Comptroller

  
**CHERYL SALDAÑA-DE LEON**  
Corporate Secretary

**SUBSCRIBED AND SWORN** to before me this **APR 12, 2024**, affiant(s) exhibiting to me the following:

Name	Competent Evidence of Identity
PAUL P. SAGAYO, JR.	Philippine Passport No. P7432752A issued on 04 June 2018/Manila TIN 200-383-080
JUSTICE LADY P. SORIANO	Philippine Passport No. P0381601B issued on 24 January 2019/Manila TIN 147-694-879
CHERYL SALDAÑA-DE LEON	Philippine Passport No. P9688007B issued on 20 April 2022/NCR East TIN 202-946-957
MA. THERESITA YULO	Philippine Passport No. P1490210B issued on 17 April 2019/Antipolo TIN 150-025-099

Doc. No. 10;  
Page No. 03;  
Book No. 1;  
Series of 2024.

  
**HAZEL GRACE P. DE LEON**  
Notary Public for the City of Pasig And Municipality of Pateros  
Commission until 31 December 2025  
2801 Discovery Center 25 ADB Ave., Ortigas Center Pasig City  
APPT No. 16012024-2025-Roll No. 85361  
PTR No. 1738673; 81-16-2024- Pasig City  
IBP No. 302978-01-15-2016-RSM  
MCLE Compliance N/A (Admitted to the Bar in 2023)

**SYNERGY GRID & DEVELOPMENT PHILS., INC.**  
Index to Financial Statements and Supplementary Schedules  
Form 17-A, Item 7

<i>Financial Statements</i>	<i>Page No.</i>
<i>Statement of Management's Responsibility for Financial Statements</i>	
<i>Report of Independent Public Accountants</i>	
<i>Balance Sheets as of December 31, 2023 and December 31, 2022</i>	
<i>Statements of Operations for the Year Ended December 31, 2023, the Year Ended December 31, 2022 and the Year Ended December 31, 2021</i>	
<i>Statements of Changes in Equity</i>	
<i>Statement of Cash Flows</i>	
<i>Notes to Financial Statements</i>	

# COVER SHEET

## for AUDITED FINANCIAL STATEMENTS

SEC Registration Number

C	S	1	9	7	0	4	1	3	7	6
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### COMPANY NAME

S	Y	N	E	R	G	Y		G	R	I	D		&		D	E	V	E	L	O	P	M	E	N	T				
P	H	I	L	S	.	,		I	N	C		A	N	D		S	U	B	S	I	D	I	A	R	I	E	S		

### PRINCIPAL OFFICE (No. / Street / Barangay / City / Town / Province)

U	n	i	t		1	6	0	2	,		1	6	t	h		F	l	o	o	r	,		T	y	c	o	o	n
C	e	n	t	e	r		B	l	d	g	.		C	o	n	d	o	m	i	n	i	u	m					
P	e	a	r	l		D	r	i	v	e	,		P	a	s	i	g		C	i	t	y						
M	e	t	r	o		M	a	n	i	l	a																	

Form Type

A A F S

Department requiring the report

Secondary License Type, If Applicable

### COMPANY INFORMATION

Company's email Address

synergy072015@yahoo.com

Company's Telephone Number/s

8584-39-30

Mobile Number

No. of Stockholders

Annual Meeting (Month / Day)

Fiscal Year (Month / Day)

December 31

### CONTACT PERSON INFORMATION

The designated contact person **MUST** be an Officer of the Corporation

Name of Contact Person

Ma. Theresita Yulo

Email Address

tesyulo@yahoo.com

Telephone Number/s

8584-3930

Mobile Number

### CONTACT PERSON'S ADDRESS

**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 nonreceipt of Notice of Deficiencies. Further, nonreceipt of Notice of Deficiencies shall not excuse the corporation from liability for its deficiencies.

# **SYNERGY GRID & DEVELOPMENT PHILS., INC AND SUBSIDIARIES**

**CONSOLIDATED FINANCIAL STATEMENTS  
December 31, 2023, 2022 and 2021**

**With Independent Auditors' Report**





R.G. Manabat & Co.  
The KPMG Center, 6/F  
6787 Ayala Avenue, Makati City  
Philippines 1209  
Telephone +63 (2) 8885 7000  
Fax +63 (2) 8894 1985  
Internet [www.home.kpmg/ph](http://www.home.kpmg/ph)  
Email [ph-inquiry@kpmg.com](mailto:ph-inquiry@kpmg.com)

## REPORT OF INDEPENDENT AUDITORS

The Board of Directors and Stockholders  
**Synergy Grid & Development Phils., Inc.**  
Unit 1602, 16<sup>th</sup> Floor  
Tycoon Center Bldg. Condominium  
Pearl Drive, Pasig City, Metro Manila

### *Opinion*

We have audited the financial statements of Synergy Grid & Development Phils., Inc. and Subsidiaries (the "Group"), which comprise the consolidated statements of financial position as at December 31, 2023 and 2022, and the consolidated statements of income, 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, comprising material accounting policies and other explanatory 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 (PSA). Our responsibilities under those standards are further described in the *Auditors' 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 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.

#### Firm Regulatory Registration & Accreditation:

PRC-BOA Registration No. 0003, valid until September 20, 2026

IC Accreditation No. 0003-IC, Group A, valid for five (5) years covering the audit of 2020 to 2024

financial statements (2019 financial statements are covered by IC Circular Letter (CL) No. 2019-39, Transition clause)

BSP Accreditation No. 0003-BSP, Group A, valid for five (5) years covering the audit of 2020 to 2024

financial statements (2019 financial statements are covered by BSP Monetary Board Resolution No. 2161, Transition clause)



## *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 financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

### *Accounting for Intangible Asset*

Refer to Note 8, Intangible Asset - net, to the consolidated financial statements.

### *The Risk*

The Group has Intangible asset amounting to P378.01 billion as at December 31, 2023 which mainly consists of assets related to the transmission projects pursuant to the Concession Agreement entered into by the Group with PSALM and TRANSCO. The accounting for intangible asset involves significant management judgement particularly in the determination of the completeness and appropriateness of the costs recognized related to approved capital expenditures, assessment of work completion and allocation of related costs that need to be capitalized in accordance with IFRIC 12, *Service Concession Arrangements*.

Moreover, due to the materiality of intangible asset in the consolidated financial statements, it is deemed as one of our key audit matters.

### *Our response*

We performed the following procedures, among others, on the Accounting for Intangible Asset:

- We assessed the operating effectiveness of key controls in respect to the appropriateness of completeness of the costs recognized related to approved capital expenditures;
- We assessed whether the Group's capitalization of intangible asset is in accordance with IFRIC 12 by obtaining and reviewing sample construction contracts;
- We performed cut-off testing to check whether transactions were recorded in the appropriate accounting period by checking the transactions subsequent to year end within the relevant period and verifying contracts, work status and other relevant documentation on a sample basis.
- We have also evaluated the appropriateness and adequacy of the presentation and the relevant disclosures in the consolidated financial statements.

### *Valuation of Goodwill*

Refer to Note 9, Goodwill, to the consolidated financial statements.

### *The risk*

The Group has goodwill amounting to P10.47 billion arising from several business acquisitions. The annual impairment testing in accordance with Philippine Accounting Standard 36, *Impairment of Assets*, is complex by nature and involves significant management judgment and assumptions on future market and/or economic conditions. The assumptions include cash flow projections, growth rates and discount rates.



*Our response*

We performed the following procedures, among others, on the Valuation of Goodwill:

- We tested the integrity of the Group's discounted cash flow model. This involved using our valuation specialists assessing and challenging the methodology and key assumptions used by the Group in preparing the discounted cash flows;
- We compared the Group's assumptions to historical results and externally derived data such as projected economic growth, competition, cost inflation and discount rates, as well as performing break-even analysis on the assumptions;
- We also evaluated the adequacy of the disclosures in respect to the sensitivity of the outcome of the impairment assessment to changes in key assumptions used in the valuation of goodwill.

*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 auditors' 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 auditors' 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.

When we read the other information mentioned above, if we conclude that there is a material misstatement therein, we are required to communicate the matter to those charged with governance.

*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.

*Auditors' 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 auditors' 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 are 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 auditors' 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 auditors' 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.



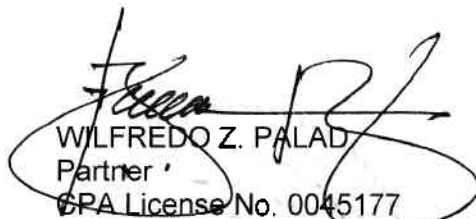
We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

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

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 auditors' report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that 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 auditors' report is Wilfredo Z. Palad.

**R.G. MANABAT & CO.**



WILFREDO Z. PALAD  
Partner  
CPA License No. 0045177

Tax Identification No. 106-197-186

BIR Accreditation No. 08-001987-006-2021

Issued September 2, 2021; valid until September 1, 2024

PTR No. MKT 10075190

Issued January 2, 2024 at Makati City

April 12, 2024

Makati City, Metro Manila



Synergy Grid & Development Phils., Inc.  
1601-1602 Tycoon Centre  
Pearl Drive Ortigas Center  
San Antonio, Pasig City, Philippines

## STATEMENT OF MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL STATEMENTS

The Management of Synergy Grid & Development Phils., Inc. & Subsidiaries (the "Group") is responsible for the preparation and fair presentation of the financial statements **including the schedules attached therein**, as at and 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 financial statements, management is responsible for assessing the Company'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 Company or to cease operations, or has no realistic alternative but to do so.

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

The Board of Directors reviews and approves the financial statements the financial statements **including the schedules attached therein**, and submits the same to the Stockholders.

**R. G. Manabat & Co.**, the independent auditor appointed by the Stockholders, has audited the financial statements of the Company in accordance with Philippine Standards on Auditing, and in its report to the Stockholders, has expressed its opinion on the fairness of presentation upon completion of such audit.


  
**HENRY S. JR.**  
Chairman of the Board

  
**PAUL SAGAYO, JR.**  
President & CEO

  
**JUSTICE LADY SORIANO**  
Treasurer & CFO

**APR 08 2024**  
Signed this <sup>th</sup> day of April 2024

Doc. No. 02 ;  
Page No. 03 ;  
Book No. 1 ;  
Series of 2024.

  
**SELINA RENE O ABLAZA**  
Notary Public for the City of Pasig And Municipality of Pateros  
Commission until 31 December 2025  
2801 Discovery Center 25 ADB Ave., Ortigas Center Pasig City  
APPT No. 162 (2024-2025)-Roll No. 84322  
PTR No. 1738668-01-10-2024- Pasig City  
IBP No. 302975-01-15-2024- RSM  
MCLE Compliance N/A (Admitted to the Bar in 2023)

**SYNERGY GRID & DEVELOPMENT PHILS., INC. AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF FINANCIAL POSITION**

		December 31	
	Note	2023	2022
<b>ASSETS</b>			
<b>Noncurrent Assets</b>			
Intangible asset - net	5, 8, 27	P378,011,065,089	P331,425,647,245
Goodwill	9	10,471,611,069	10,471,611,069
Property and equipment - net	10	4,992,871,834	5,064,830,164
Receivables - net of current portion	12, 24	19,818,733,434	13,812,574,882
Other noncurrent assets	13	3,035,840,518	3,615,997,156
<b>Total Noncurrent Assets</b>		<b>416,330,121,944</b>	<b>364,390,660,516</b>
<b>Current Assets</b>			
Cash and cash equivalents	11, 24	9,912,916,098	4,849,929,077
Receivables - net	12, 24	10,207,624,712	16,631,314,252
Prepaid expenses and other current assets	13	29,724,833,738	31,619,907,413
<b>Total Current Assets</b>		<b>49,845,374,548</b>	<b>53,101,150,742</b>
		<b>P466,175,496,492</b>	<b>P417,491,811,258</b>
<b>LIABILITIES AND EQUITY</b>			
<b>Noncurrent Liabilities</b>			
Loans payable - net of current portion	14, 24	P169,769,601,209	P144,472,062,385
Retirement benefits liability	23	2,617,270,403	2,094,835,424
Customers' and other deposits	24	441,061,705	422,698,651
Concession fee payable	4, 5, 24	49,894,945,952	54,319,128,352
Other noncurrent liabilities	16, 24	1,561,096,622	1,748,708,142
<b>Total Noncurrent Liabilities</b>		<b>224,283,975,891</b>	<b>203,057,432,954</b>
<b>Current Liabilities</b>			
Trade and other current payables	15, 22, 24, 25	40,053,769,159	39,409,782,757
Current portion of concession fee payable	4, 5, 24	4,424,182,400	-
Current portion of loans payable	14, 24	23,738,528,528	22,619,438,229
Other current liabilities	16, 24	18,219,773,184	16,005,208,211
<b>Total Current Liabilities</b>		<b>86,436,253,271</b>	<b>78,034,429,197</b>
<b>Total Liabilities</b>		<b>310,720,229,162</b>	<b>281,091,862,151</b>
<b>Equity</b>			
Capital stock	17	5,265,866,000	5,265,866,000
Additional paid-in capital	17	88,928,018,694	88,928,018,694
Remeasurements on defined benefit liability	23	(161,146,711)	(15,331,402)
Equity adjustments from common control transactions	6	(73,359,171,000)	(73,359,171,000)
Retained earnings	17	80,327,033,416	71,511,023,112
<b>Equity Attributable to Equity Holders of the Parent Company</b>		<b>101,000,600,399</b>	<b>92,330,405,404</b>
<b>Non-controlling Interests</b>	6, 7	<b>54,454,666,931</b>	<b>44,069,543,703</b>
<b>Total Equity</b>		<b>155,455,267,330</b>	<b>136,399,949,107</b>
		<b>P466,175,496,492</b>	<b>P417,491,811,258</b>

See Notes to the Consolidated Financial Statements.

**SYNERGY GRID & DEVELOPMENT PHILS., INC. AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF INCOME**

Years Ended December 31				
	Note	2023	2022	2021
<b>REVENUES</b>	20	P52,999,780,707	P61,821,367,993	P48,604,206,642
<b>EXPENSES</b>				
Amortization of intangible asset	8	10,278,219,986	8,967,361,234	8,787,319,948
Salaries, wages and employee benefits	23	5,439,712,298	4,865,776,722	4,691,447,813
Repairs and maintenance		2,625,578,279	1,473,362,816	1,799,320,650
Insurance		982,473,548	693,849,145	533,634,921
Depreciation	3, 10	790,527,075	705,731,012	612,419,001
Supervision and regulatory fees		590,815,380	468,433,750	468,433,750
Communication, light and water		557,278,889	581,555,973	447,733,565
Security and janitorial		545,126,932	451,460,678	480,569,408
Transportation and travel		408,192,185	331,600,860	235,646,261
Public relation and corporate social responsibility		249,139,128	681,725,902	298,774,240
Fuel and oil		220,091,207	253,744,891	149,272,120
Supplies and tools		197,303,539	209,577,433	255,686,888
Outside services		163,019,179	408,958,180	175,787,327
Representation and entertainment		127,809,509	103,818,942	107,822,495
Rent	3, 22	108,602,088	100,859,453	94,305,241
Taxes and licenses		68,280,992	125,587,393	56,923,750
Provision for impairment losses on receivables	12	64,670,000	64,670,000	64,670,000
Meetings and conferences		43,733,652	28,190,411	23,662,311
Professional fees		41,329,368	49,466,652	63,364,222
Director's fee		35,040,000	35,520,000	20,820,000
Advertising		26,829,753	18,179,927	16,712,065
Charitable contributions		4,675,485	6,711,857	5,649,624
Filing fees		2,030,055	2,024,568	125,404,165
Miscellaneous		52,451,539	50,468,728	1,242,449
		<b>23,622,930,066</b>	<b>20,678,636,527</b>	<b>19,516,622,214</b>
<b>INCOME FROM OPERATIONS</b>		<b>29,376,850,641</b>	<b>41,142,731,466</b>	<b>29,087,584,428</b>
<b>OTHER CHARGES - Net</b>				
Interest income	11	118,889,542	139,664,024	64,337,554
Foreign exchange gain (loss) - net	24	116,865,867	(905,638,788)	(244,628,027)
Interest expense	3, 5, 14	(5,760,365,950)	(5,648,991,642)	(6,056,733,815)
Bank and finance charges	14	(245,751,861)	(226,191,423)	(224,999,243)
Miscellaneous income (loss)		(231,108,630)	201,250,261	319,447,149
		<b>(6,001,471,032)</b>	<b>(6,439,907,568)</b>	<b>(6,142,576,382)</b>
<b>CONSTRUCTION REVENUE AND COSTS</b>				
Construction revenue		56,863,637,830	40,921,410,818	40,496,333,357
Construction costs		(56,863,637,830)	(40,921,410,818)	(40,496,333,357)

Forward



Years Ended December 31				
	Note	2023	2022	2021
<b>NET INCOME BEFORE TAX</b>		<b>P23,375,379,609</b>	P34,702,823,898	P22,945,008,046
<b>INCOME TAX EXPENSE</b>		<b>7,249,642</b>	17,523,836	2,434,757
<b>NET INCOME</b>		<b>P23,368,129,967</b>	P34,685,300,062	P22,942,573,289
<b>Attributable to:</b>				
Equity holders of the Parent Company		<b>P10,645,372,151</b>	P15,021,096,101	P9,124,966,265
Non-controlling interests		<b>12,722,757,816</b>	19,664,203,961	13,817,607,024
		<b>P23,368,129,967</b>	P34,685,300,062	P22,942,573,289
<b>BASIC AND DILUTED EARNINGS PER SHARE</b>	<b>18</b>	<b>P2.02</b>	P2.85	P2.10

See Notes to the Consolidated Financial Statements.

**SYNERGY GRID & DEVELOPMENT PHILS., INC. AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME**

		Years Ended December 31		
	Note	2023	2022	2021
<b>NET INCOME</b>		<b>P23,368,129,967</b>	<b>P34,685,300,062</b>	<b>P22,942,573,289</b>
<b>OTHER COMPREHENSIVE INCOME (LOSS)</b>				
<i>Item that will never be reclassified to profit or loss</i>				
Remeasurement gain (losses) on defined benefit liability	23	(319,070,697)	239,273,933	104,158,044
<b>TOTAL COMPREHENSIVE INCOME</b>		<b>P23,049,059,270</b>	<b>P34,924,573,995</b>	<b>P23,046,731,333</b>
<b>Attributable to:</b>				
Equity holders of the Parent Company		<b>P10,499,556,842</b>	<b>P15,115,863,674</b>	<b>P9,166,837,799</b>
Non-controlling interests		<b>12,549,502,428</b>	<b>19,808,710,321</b>	<b>13,879,893,534</b>
		<b>P23,049,059,270</b>	<b>P34,924,573,995</b>	<b>P23,046,731,333</b>

*See Notes to the Consolidated Financial Statements.*

**SYNERGY GRID & DEVELOPMENT PHILS., INC. AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY**

Years Ended December 31									
	Note	Capital Stock (Note 17)	Additional Paid-In Capital	Equity Adjustments From Common Control Transactions	Remeasurement Gains (Losses) on Defined Benefit Liability	Retained Earnings	Total	Non-controlling Interests	Total Equity
As at January 1, 2023		P5,265,866,000	P88,928,018,694	(P73,359,171,000)	(P15,331,402)	P71,511,023,112	P92,330,405,404	P44,069,543,703	P136,399,949,107
Total Comprehensive Income									
Net income for the year		-	-	-	-	10,645,373,151	10,645,372,151	12,722,757,816	23,368,129,967
Other comprehensive loss:									
Remeasurement loss on defined benefit liability	23	-	-	-	(145,815,309)	-	(145,815,309)	(173,255,389)	(319,070,697)
Total Comprehensive Income for the Year		-	-	-	(145,815,309)	10,645,373,151	10,499,556,842	12,549,502,428	23,049,059,270
Transactions with Owners of the Group									
Dividends	17	-	-	-	-	(1,829,361,847)	(1,829,361,847)	(2,164,379,200)	(3,993,741,047)
Balance at December 31, 2023		P5,265,866,000	P88,928,018,694	(P73,359,171,000)	(P161,146,711)	P80,327,033,416	P101,000,600,399	P64,464,666,931	P155,455,267,330

See Notes to the Consolidated Financial Statements.

**SYNERGY GRID & DEVELOPMENT PHILS., INC. AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY**

	Years Ended December 31									
	Note	Capital Stock (Note 17)	Additional Paid-in Capital	Equity Adjustments From Common Control Transactions	Remeasurement Gains (Losses) on Defined Benefit Liability	Retained Earnings	Total	Non-controlling Interests	Total Equity	
As at January 1, 2022		P5,265,866,000	P88,928,018,694	(P73,359,171,000)	(P110,098,975)	P61,755,793,011	P82,480,407,730	P30,919,736,582	P113,400,144,312	
Total Comprehensive Income										
Net income for the year		-	-	-	-	15,021,096,101	15,021,096,101	19,664,203,961	34,685,300,062	
Other comprehensive income:										
Remeasurement gain on defined benefit liability	23	-	-	-	94,767,573	-	94,767,573	144,506,360	239,273,933	
Total Comprehensive Income for the Year		-	-	-	94,767,573	15,021,096,101	15,115,863,674	19,808,710,321	34,924,573,995	
Transactions with Owners of the Group										
Dividends	17	-	-	-	-	(5,265,866,000)	(5,265,866,000)	(5,658,903,200)	(11,924,769,200)	
Balance at December 31, 2022		P5,265,866,000	P88,928,018,694	(P73,359,171,000)	(P15,331,402)	P71,511,023,112	P82,330,405,404	P44,069,543,703	P136,399,949,107	

See Notes to the Consolidated Financial Statements

**SYNERGY GRID & DEVELOPMENT PHILS., INC. AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY**

Years Ended December 31									
	Note	Capital Stock (Note 17)	Additional Paid-In Capital	Equity Adjustments From Common Control Transactions	Remeasurement Gains (Losses) on Defined Benefit Liability	Retained Earnings	Total	Non-controlling Interests	Total Equity
As at January 1, 2021		P4,149,866,000	P77,907,600,000	(P73,359,171,000)	(P151,970,509)	P55,684,873,796	P64,231,198,287	P25,418,543,048	P89,649,741,335
Total Comprehensive Income									
Net income for the year		-	-	-	-	9,124,966,265	9,124,966,265	13,817,607,024	22,942,573,289
Other comprehensive income:									
Remeasurement gain on defined benefit liability	23	-	-	-	41,871,534	-	41,871,534	62,286,510	104,158,044
Total Comprehensive Income for the Year		-	-	-	41,871,534	9,124,966,265	9,166,837,799	13,879,893,534	23,046,731,333
Transactions with Owners of the Group									
Issuance of shares	17	1,116,000,000	11,588,500,000	-	-	-	12,704,500,000	-	12,704,500,000
Share issuance Costs	17	-	(568,081,306)	-	-	-	(568,081,306)	-	(568,081,306)
Dividends	17	-	-	-	-	(3,054,047,050)	(3,054,047,050)	(8,378,700,000)	(11,432,747,050)
Balance at December 31, 2021		P5,265,866,000	P88,928,018,694	(P73,359,171,000)	(P110,098,975)	P61,755,793,011	P82,480,407,730	P30,919,736,582	P113,400,144,312

See Notes to the Consolidated Financial Statements.

**SYNERGY GRID & DEVELOPMENT PHILS., INC. AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**

		Years Ended December 31		
	Note	2023	2022	2021
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>				
Net income before tax		P23,375,379,609	P34,702,823,898	P22,945,008,046
Adjustments for:				
Amortization of intangible asset	8	10,278,219,986	8,967,361,234	8,787,319,948
Interest expense	5, 14	5,760,365,950	5,648,991,642	6,056,733,815
Depreciation	10	790,527,075	705,731,012	612,419,001
Retirement benefits cost	23	300,202,372	279,124,642	261,224,272
Provision for impairment losses				
on receivables	12	64,670,000	64,670,000	64,670,000
Interest income	11	(118,889,542)	(139,664,024)	(64,337,554)
Unrealized foreign exchange loss	24	44,189,165	(15,578,197)	(179,869,031)
Gain on pre-termination of contract		-	(811)	-
Reversal of creditable withholding tax		-	-	(8,064,980)
Operating income before working capital changes		40,494,664,615	50,213,459,396	38,475,103,517
Decrease (increase) in:				
Receivables		388,565,815	(13,185,271,884)	(3,043,142,851)
Prepaid expenses and other current assets		(444,076,263)	(2,182,414,177)	(949,357,703)
Increase (decrease) in:				
Trade and other current payables		207,362,764	(5,564,549,106)	(6,036,840,612)
Other current liabilities		3,444,136,413	2,429,564,693	2,759,411,204
Customers' and other deposits		18,363,054	33,362,121	(11,528,866)
Other noncurrent liabilities		(113,785,756)	(1,177,446,174)	941,022,945
Net cash generated from operations		43,995,230,642	30,566,704,869	32,134,667,634
Interest paid	5, 14	(5,080,609,113)	(5,254,262,196)	(6,531,287,443)
Interest received		115,518,458	139,834,094	73,664,020
Contribution to retirement fund		(131,794,997)	(105,141,542)	(112,002,237)
Income tax paid		(7,304,787)	(17,494,726)	(2,345,237)
Net cash provided by operating activities		38,891,040,203	25,329,640,499	25,562,696,737
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>				
Investment in capital expenditures	8, 13, 27	(53,944,952,828)	(43,653,584,543)	(35,219,301,477)
Additions to property and equipment	10	(718,568,745)	(1,640,225,334)	(767,501,915)
Increase in other noncurrent assets		-	500,383	198,330
Net cash provided by (used in) investing activities		(54,663,521,573)	(45,293,309,494)	(35,986,605,062)

Forward

Years Ended December 31				
	Note	2023	2022	2021
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>				
Proceeds of loans payable	14	P49,400,000,000	P31,500,000,000	P29,500,000,000
Payment of cash dividends	17	(5,364,295,961)	(11,518,777,150)	(10,462,230,633)
Payment of loans payable	14	(22,983,370,877)	(15,644,570,001)	(14,161,472,521)
Settlement of obligation under lease liabilities	22	(215,942,915)	(110,553,982)	(93,888,442)
Proceeds from follow - on offering	17	-	-	12,642,000,000
Issuance of shares	17	-	-	62,500,000
Advances from shareholders		-	-	(250,051,483)
Transaction costs relating to issuance of shares		-	-	(568,081,306)
Net cash provided by financing activities		20,836,390,247	4,226,098,867	16,668,775,615
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>		5,063,908,877	(15,737,570,128)	6,244,867,290
<b>EFFECTS OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS</b>		(921,856)	13,738,781	247,708,676
<b>CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR</b>	11	4,849,929,077	20,573,760,424	14,081,184,458
<b>CASH AND CASH EQUIVALENTS AT END OF YEAR</b>	11	P9,912,916,098	P4,849,929,077	P20,573,760,424

See Notes to the Consolidated Financial Statements.

## **SYNERGY GRID & DEVELOPMENT PHILS., INC. AND SUBSIDIARIES**

### **NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

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#### **1. Reporting Entity**

Synergy Grid & Development Phils., Inc. (SGDPI or the "Parent Company") was originally a mining corporation and registered with the Philippine Securities and Exchange Commission (SEC) on June 1, 1970 under the name Mankayan Minerals Development Company, Inc.

The consolidated financial statements comprise the financial statements of the Parent Company and its subsidiaries, namely OneTaipan Holdings, Inc. ("OTHI"), Pacifica21 Holdings, Inc. ("P21"), Monte Oro Grid Resources Corporation ("MOGRC"), Calaca High Power Corporation ("CHPC") and National Grid Corporation of the Philippines ("NGCP"), (collectively referred to as the "Group"). The Parent Company's shares of stock are listed on the Philippine Stock Exchange (PSE) under the stock symbol "SGP."

On February 22, 1994, the SEC approved the Parent Company's change of corporate name to UEM Development Phils., Inc. and the change in its primary purpose from engaging in mining activities to general construction and other allied businesses. The amendment of its primary purpose was due to the potential opportunity in the construction industry brought about by the entry of a new foreign investor.

On October 10, 1997, the SEC approved the Amendment to the Seventh Article of the Parent Company's Articles of Incorporation increasing the par value of its authorized capital stock from P0.01 to P1.00, decreasing the Parent Company's shares of stock from 500.00 million shares to 50.00 million shares, and stating that the stockholders shall have no pre-emptive rights.

On December 14, 2010, the Board of Directors (BOD) considered and approved the Amendment of the Articles of Incorporation and By-Laws of the Parent Company for the purpose of, among others, changing the Parent Company's corporate name to Synergy Grid & Development Phils., Inc., changing its primary purpose to enable it to engage in the business of investing in, purchasing or acquiring, and selling or disposing of the shares of stock, bonds, evidences of indebtedness and other securities issued or created by corporations and other entities engaged in power, energy, utilities, infrastructure and other allied businesses; and for the above purposes, to acquire, lease, hold, occupy, use, mortgage real and personal properties, to obtain financing from local and international funding sources or otherwise raise capital and funds by issuing or creating equity and debt securities, and to do or engage in any and all other businesses and activities incidental to or connected with, or in furtherance and/or the implementation of any and all of the foregoing. The amendments to the Articles of Incorporation and By-Laws of the Parent Company were approved by the stockholders on December 21, 2010.

On November 14, 2019, the BOD of the Parent Company, and on December 20, 2019, the Stockholders of the Parent Company, approved the amendment of the Articles of Incorporation of the Corporation pursuant to an increase in authorized capital stock from P50.00 million divided into 50.00 million common shares at par value of P1.00 per share to P5.05 billion divided into 5.05 billion common shares at par value of P1.00 per share.



This amendment and increase in capital stock were pursued in connection with the issuance of 4.10 billion shares of the Parent Company in exchange for shares of stock in OTHI and P21 (the "Share Swap Transaction").

On December 20, 2019, the Parent Company and the stockholders of OTHI and P21 entered into a Share Purchase Agreement, pursuant to which, the two major shareholder of the Parent Company acquired additional 4.10 billion shares of the Parent Company at a price of P20 per share for a total purchase price of P82.00 billion. As consideration for its acquisition, the two major shareholders exchanged their respective ownership in OTHI and P21. Accordingly, the 2.10 billion shares with a P1.00 par value of the Parent Company were swapped with 86.40 million shares of OTHI with a par value of P100 per share, while the 2.00 billion shares of Parent Company were swapped with 871.00 million common shares of P21 with a par value of P1.00 per share.

As a result of the Share Swap Transaction, the Parent Company will legally and/or beneficially owns 67% of the outstanding shares of each of OTHI and P21. OTHI owns controlling shares in MOGRC, which holds 30% plus one share in National Grid Corporation of the Philippines ("NGCP"). P21 owns controlling shares in CHPC, which in turn owns 30% minus one share in NGCP. The Share Swap Transaction was undertaken to formally consolidate the two major shareholder's ownership and control of NGCP through a common corporate structure. Accordingly, the effective ownership of the Parent Company in NGCP would be 40.20%, with control of 60% voting rights through its subsidiaries MOGRC and CHPC.

On March 26, 2020, the proposed share-swap transaction was approved by the Philippine Competition Commission on the grounds that it will not likely result in substantial lessening of competition in the Philippine market.

On May 28, 2021, the SEC approved the increase in the Parent Company's authorized capital stock from P50.00 million to P5.05 billion. Consequently, the 4.10 billion common shares for the share swap transaction were issued at a price of P20 per share on the same date. The incremental costs directly attributable to the issuance of common shares amounting to P206.66 million is recognized as a deduction from additional paid-in capital.

On June 30, 2021 and on August 10, 2021, the Parent Company's BOD and stockholders resolved and approved, respectively the increase in authorized capital stock from P5.05 billion to P5.30 billion, with the increase of 250.00 million to be divided into 250.00 million common shares at a par value of P1.00 per share.

This increase is for the Parent Company to conduct a follow-on offering of its shares to achieve the target public float of twenty percent (20%) of the outstanding capital stock of the Parent Company and for other business purposes.

The above increase was approved by the SEC on August 25, 2021. Consequently, of the 250.00 million increase in shares of the Parent Company, 25% of which was subscribed and paid by the Parent Company's major shareholders amounting to P62.50 million.

On August 10, 2021, the Parent Company's BOD approved and authorized the offer and issuance of 1.05 billion common shares at an offer price of up to P29 per share, and also grants over-allotment option pursuant to which a stabilizing agent or its affiliate has the right to purchase up to 101 million common shares of the Parent Company's shares owned by its major shareholders.

On August 12 and September 10, 2021, the Parent Company's shareholders have also secured the Certificate Authorizing Registration with the Bureau of Internal Revenue (BIR) in order to transfer in the name of the Parent Company the following shares:

- (i) 86,430,000 common shares in OTHI representing 67% of its total capital stock; and
- (ii) 871,000,000 common shares in P21 representing 67% of its total capital stock.

The details the equity interest of the Parent Company in its subsidiaries after the Share Swap are as follows:

	Percentage of Ownership		Country of Incorporation
	Direct	Indirect	
OneTaipan Holdings, Inc. ("OTHI")	67.0%	-	Philippines
Pacifica21 Holdings, Inc. ("P21")	67.0%	-	Philippines
Monte Oro Grid Resources Corporation ("MOGRC")*	-	67.0%	Philippines
Calaca High Power Corporation ("CHPC")**	-	67.0%	Philippines
National Grid Corporation of the Philippines ("NGCP")***	-	40.2%	Philippines

\* Indirectly owned through OTHI

\*\* Indirectly owned through P21

\*\*\* Indirectly owned through MOGRC and CHPC

OTHI is 67% directly owned subsidiary of the Parent Company and was incorporated and registered with Philippine SEC on February 23, 2010. OTHI's primary purpose is to acquire by purchase, exchange, assignment or otherwise, and to sell, assign, transfer, exchange, lease, let, develop, mortgage, pledge, deal in and with and otherwise operate, enjoy and dispose of, all properties of every kind and description and whatever situated and to the extent permitted by law.

MOGRC is a wholly-owned subsidiary of OTHI and was incorporated and registered with Philippine SEC on August 29, 2006. MOGRC's primary purpose is to invest or hold interests in the shares of stocks of companies engaged in or proposing to engage in infrastructure projects, whether as proponent, equity investor or financial or technical advisor and to do all acts and things necessary to carry out the foregoing purpose.

P21 is 67% directly owned by the Parent Company and was incorporated and registered with Philippine SEC on May 12, 2008. P21's purpose is to invest or acquire interest, purchase, own or hold directly or indirectly shares of stock, debentures or securities in other companies including related services and business activities.

CHPC is a wholly-owned subsidiary of P21 and was incorporated and registered with Philippine SEC on December 15, 2006. CHPC's primary purpose is to engage in the general business of operating, managing, maintaining, and rehabilitating energy systems and services from gas, steam and electricity including related services and business activities.

NGCP's common shares is 30%-owned each by MOGRC and CHPC and was incorporated in the Philippines and registered with Philippine SEC on February 21, 2008 primarily to operate and maintain a nationwide transmission grid throughout the Philippines; to provide open and non-discriminatory access to the transmission system to all authorized electricity distributors and electricity users; and to carry on all business incidental to the same.

On October 14, 2021, the listing of the Offer Shares was approved by the Philippine Stock Exchange. The Philippine SEC approved the listing of SGP on October 20, 2021.

On November 10, 2021, SGDPI, under the symbol "SGP", publicly listed its 1,053,500,000 shares from its Follow-On Offering (FOO) on the Philippine Stock Exchange with overallotment option of up to 101 million secondary shares at P12.00 per common share.

The Parent Company will use the proceeds of the FOO to directly subscribe to non-voting preferred shares that will be issued by NGCP. Proceeds from the issuance of the non-voting preferred shares will be used by NGCP to finance its capital expenditure requirements and related costs and expenses.

On April 4, 2022, the Parent Company used the proceeds of the FOO to subscribe to 203.63 million non-voting preferred shares of National Grid Corporation of the Philippines (NGCP) with a par value of one peso (P1.00) per share at a subscription price of P60.10/share or a total subscription price of P12,238,163,000.

The subscription will give the Parent Company a direct shareholding in NGCP of 9.240% of the latter's outstanding capital stock. The Parent Company will be entitled to dividends as a direct shareholder of NGCP, and this is in addition to the dividends that the Parent Company already indirectly receives from NGCP through the holding entities.

On 12 April 2022, the Parent Company paid P3,059,540,750 in cash, representing twenty-five percent (25%) of the total subscription price.

On June 9, 2022, the Parent Company paid the balance of the total subscription price in the amount P9,178,622,250.

On February 28, 2008, the Group, through NGCP entered into a Concession Agreement with Power Sector Assets and Liabilities Management Corporation (PSALM) and the National Transmission Corporation (TRANSCO) granting the Group as Concessionaire the right to take over and operate the whole of TRANSCO's regulated transmission business as a going concern and be the sole representative of Regulated Entity before the Philippine Energy Regulatory Commission (ERC). The commencement date of the Concession Agreement is on January 15, 2009 and shall expire on the 25<sup>th</sup> anniversary of the commencement date. The Concession can be extended but not to exceed beyond the 50<sup>th</sup> anniversary of the commencement date or for longer than the remaining term of the Group's franchise (see Note 4).

SGP indirectly controls 60% of the outstanding common shares of NGCP, SGP's sole operating asset with an effective equity interest of 45.726%.

#### Significant Contracts and Agreements

##### Construction Management Agreement (CMA)

From the commencement date, TRANSCO appointed the Concessionaire to act as its Construction Manager (CM) to implement, manage and administer the construction and completion of each Project Under Construction (PUC) as an independent contractor for and on its behalf, in accordance with the requirements of the Concession Agreement and as further set forth below:

- a) The CM shall have principal day-to-day on-site management, oversight and administrative responsibilities over all projects under construction and all contractors' construction activities in relation thereto.

- b) The CM shall be the primary point of contact for communications with all Contractors' Construction of such fact.
- c) The CM shall perform its responsibilities in accordance with the standards required under the CMA.

Nothing in the CMA shall release the CM from complying with its functions and obligations including the completion of all the PUCs at its own cost and expense, provided however, that if the sole and exclusive reason for the non-completion of a PUC is due to TRANSCO's failure to make available the committed funding under the Funding Agreements, then the CM shall be released from completing such PUC. Any such release shall be limited to the obligation that the CM would have had, had TRANSCO not failed to make such funding available and shall be subjected to the Concessionaire being in full compliance with the Transaction Documents.

#### *External Consultant Agreements*

In 2023 and 2022, the Group, through NGCP executed various external consultancy agreements in relation to the conduct of its business and in compliance with regulatory requirements, several of which are as follows:

- Legal services;
- Advisory and consulting services for regulatory filings;
- Implementation consultancy services; and
- Other consultancy services as needed.

Expenses incurred pertaining to these agreements are included in "Outside services" and "Professional fees" in profit or loss in the consolidated statements of income.

#### *Construction Contracts*

The Group, through NGCP, agreed to manage the construction and completion of all PUC that have not been commissioned and placed in service on behalf of TRANSCO in accordance with the CMA. Upon the acceptance by the Group of the completion of PUC in accordance with the provisions of the applicable PUC contracts, each PUC completed and accepted by the Group shall immediately form part of the Transmission Grid.

#### *New Construction Contracts.*

As of December 31, 2023, the Group, through NGCP entered into new significant construction contracts amounting to P16.57 billion. Among the major contracts are as follows:

- Supply and Delivery of Steel Poles
- Design, Manufacture, Delivery, Installation, Assembly, Testing and Turnover of Spare Shunt Reactors at Tuguegarao and Laoag Substations
- Construction of Shelter for the Mobile Transformer Units at Daraga, Cadiz, and General Santos Substations
- Construction of Shelter for the Mobile Transformer Units at Mexico Substation
- Site Preparation, Design, Manufacture, Factory Test, Delivery, Installation, Assembly, Field Test, Commissioning and Turn-Over of Fifteen (15) Units Online Dissolved Gas Analyzer (DGA Monitoring System) to Various Substations
- Supply & Delivery of 28 Units (Euro 4) Lineman's Truck to Various Sites
- Supply & Delivery of 11 Units Land Forklift Vehicle and 44 Units of Electric Pallet & 3 Units Three (3) Wheel Electric Cargo Vehicle
- Supply, Delivery, Installation, Test, Commissioning and Training for Airborne Light Detection and Ranging (Lidar) Equipment
- Retrofitting of Optical Ground Wire (OPGW) for Compostela - Daan Bantayan Line 1

- Supply and Delivery of Revenue Meters for Metering Projects and Spares Program
- Binan - Calaca 230kv Line 1 Optical Ground Wire (OPGW) Retrofitting Project
- Identity Access Management (IDAM)
- Notice of Award for the Design, Manufacture, Factory Test and Delivery of Voltage Transformers (VTS) Intended for NGCP's Various Substations
- Luzon-Visayas Bipolar Operations Project Consultancy Services
- Cable Route Study, Marine Survey and Engineering Feasibility Study of the Submarine Power Cable for Sch. II: Quezon-Marinduque
- Replacement of Transmission Line Materials for Cebu-Negros-Panay 230kv Backbone Project Stage 3 (OHTL Portion) and Various Transmission
- Supply and Delivery of Power Conductor for Cebu-Umapad 230kv Transmission Line Project
- Cable Route Study, Marine Survey and Engineering Feasibility Study of the Submarine Power Cable for Sch. I: Cebu-Leyte Lines 3 & 4 Interconnection Project
- Network Management System
- Supply and Delivery of Lineman's Truck
- Variation Order for Project: Bataan Grid 230kv Reinforcement Project (Erection/ Construction of Intermediate Steel Poles for the Raising of Conductor Sags of Mexico - Hermosa 230kv Transmission Lines)
- Supply Service Agreement: Design, Manufacture, Factory Test and Delivery of Surge Arresters to Various Substations
- Corporate Notebook Std Performance
- Supply Service Agreement (SSA): Supply and Delivery of Steel Poles
- Supply Service Agreement: Supply and Delivery of Various Metering Requirement (Combined Instrument Transformer, Current Transformer, Voltage Transformer)
- Variation Order No. 1 for the Design, Supply of Labor, Tools and Materials for the Fit-Out of Office Space Located at Bonaventure Plaza,
- Remaining Works for the Hermosa-San Jose 500kv Transmission Line (20 Towers)

For 2023, the Capital Expenditures approved and confirmed by the Group, through NGCP's Board amounted to P45.67 billion.

As of December 31, 2023, the Group, through NGCP entered into new significant construction contracts amounting to P42.19 billion. Among the major contracts are as follows:

- Erection and Construction for the Permanent Restoration of C.P. Garcia - Ubay 138kV Transmission Line Special Towers Affected by Typhoon Odette
- Construction and Erection of NGCP Transmission Lines Affected by DOTR-North South Commuter Railway Extension
- Restoration of Toppled Towers Affected by Typhoon Odette - Erection and Construction (Permanent)
- Zamboanga Peninsula Voltage Improvement Project, Schedule I
- Mexico 69kV Substation Expansion Project Under San Simon 230kV Substation Project & North Luzon Substation Upgrading Project Stage 2 Rebidding
- North Luzon Substation Upgrading Project 2, Schedule VI - (Laoag, Bauang, San Esteban & Bacnotan Substation Portion) & Pinili Substation Project - (Currimaos Substation Portion)
- Visayas Substation Upgrading Project 2 Schedule X - Design, Supply, Installation, Testing and Commissioning of High Voltage Equipment including Secondary Devices at Barotac Viejo, San Jose & Sta. Barbara Substations (Rebidding)

- Expansion of Visayas Regional Control Center Building (Cebu)
- Laguindingan 230kV bus-in to Balo-I - Villanueva and Nasipit 138kV bus-in to Jasaan-Butuan Transmission Line Project
- Western Luzon 500kV Backbone Project (Stage 2) - Schedule I (Castillejos to CB-220)
- Kibawe - Davao 138 kV TL OPGW Retrofitting Project
- North Luzon Substation Upgrading Project 2, Schedule VII - (Balingueo, Tuguegarao, Bayombong, Pantabangan, Hermosa Substation Portion), Grid Replacement Program & South Luzon Substation Upgrading Project 2 - Taytay Substation Portion
- Cebu-Negros-Panay 230kv Backbone Project, Stage 3, Phase 1 (Sched II) - Secondary Devices
- South Luzon Substation Upgrading Project 1, Schedule 1 (Remaining Works) - Design, Supply, Installation, Testing and Commissioning of 1x300mva Power Transformer and Associated Equipment at Las Piñas Substation
- Design, Supply of Labor, Tools, and Materials for the Fit-Out of Office Space Located at Bonaventure Plaza, Connecticut Corner Ortigas Avenue, San Juan City, Manila
- Mindanao Substation Expansion 4 Project, Schedule IV - Design, Supply, Installation, Testing and Commissioning of High Voltage Equipment Including Secondary Devices (Nasipit, Maco, Culaman and Sultan Kudarat Substations); and Nasipit Substation Bus-In Project (Nasipit Substation); and 69kv Bislig Substation Restoration Works (Package II - Associated High Voltage Equipment); and Mindanao Substation Upgrading 2 Project, Schedule VI - Design, Supply, Installation, Testing and Commissioning of High Voltage Equipment Including Secondary Devices at Kidapawan & Gensan Substations
- Visayas Voltage Improvement Project 2, Schedule 1 - (Baybay Les, Sipalay Les, San Jose 69kv S/S, Naga-Vis and Calbayog Substation)
- Amlan-Dumaguete Transmission Line Project (Transmission Line Portion)
- Permanent Restoration of Ormoc-Maasin 138kv T/L Towers Affected by Landslide Due to Typhoon Agaton (Erection and Construction)
- Nagsaag - San Jose 500kv Line Extension to Marilao and Duhat - Marilao 230kv Transmission Line Project Under Marilao EHV Substation Project
- Relocation of Hermosa-Duhat 230kv Transmission Line Project Along Jasa Road (Remaining Works)
- Visayas Voltage Improvement Project, Stage 2 (Himayangan, Laoang (Bobolosan) and Tolosa 69 Kv Load End Substations)
- Grid Protection Relay Replacement Project (Phase 3) - Sched I (San Jose, Botolan, and Tayabas Substations)
- Grid Protection Relay Replacement Project (Phase 3) - Schedule IV (Nabunturan and General Santos Substations)
- Western Luzon 500kv Backbone Project (Stage 2) - Schedule II (Tower No. Cb-221 to Bolo S/S)
- Replacement for Borrowed Line Materials Under Restoration of Towers Affected by Typhoon Odette and Various Transmission Line Projects
- Grid Protection Relay Replacement Project (Phase 3) Sched II (Mandaue, Lapu-Lapu, Quiot, and Pitogo Substations)
- Western Luzon 500kv Backbone Project, Stage 2, Schedule II (Bolo 500kv Substation Expansion Portion) and Grid Protection Relay Replacement Project, Phase 3 (Bolo 500/230kv Substation Portion)
- Grid Protection Relay Replacement Project (Phase 3) Sched III (Amlan, Bacolod, Babatngon, Cebu, Colon and Ormoc Substations) and Backup Visayas Regional Control Center (Bacolod Substation)
- Ilijan 500kv Substation Upgrading Project
- Cebu-Lapu Lapu Transmission Line Project (Overhead Transmission Line) (Re-Bidding)

- Completion Works for The Hermosa - San Jose 500kv Transmission Line Project (32 Workable Tower Sites)
- Remaining Works for Hermosa - San Jose 500kv Transmission Line Project (20 Tower Sites)
- Remaining Works for Hermosa-San Jose Transmission Line Project (10 Tower Sites)

For 2022, the Capital Expenditures approved by NGCP's Board on March 25, 2021 amounted to P37.60 billion and supplemental budget amounting to P3.02 billion was approved on November 29, 2022.

*Projects under Construction (PUC).* PUC refer to the 42 transmission projects listed in Schedule 2 and defined under Section 4.02 of the Concession Agreement.

From its commencement, the Group, through NGCP has various existing Construction Project Agreements with different contractors for the construction, rehabilitation, upgrade, and infrastructure of transmission assets to provide transmission services with an average term of more than one year. In accordance with the agreements, the Contractor agreed to furnish all labor, materials, equipment, and other incidentals necessary to complete the procurement, manufacturing, supply, construction, erection, testing, and commissioning of the transmission assets. In consideration of such services, the Group agreed to pay the contractors a fee under mutually agreed upon terms and conditions specified in the agreement.

In compliance with the mandate under the Concession Agreement, the Group engages the services of third-party contractors for its construction and upgrade services. Construction costs comprise of all expenses related to the construction contracts which are equal to construction revenues because it is already the fair value of the intangible asset recognized.

The Group recognizes construction costs and revenues in compliance with Accounting Standards specifically, Philippine Interpretation, International Financial Reporting Interpretations Committee (IFRIC) 12, *Service Concession Arrangements*, but do not receive any cash inflow nor does the Group receive any revenue from these activities. The annual revenue the Group receives from Transmission Wheeling Rates for the provision of Transmission Services is determined in accordance with the Rules in Setting Transmission Wheeling Rates (RTWR) as approved by the Regulator.

*Republic Act No. 9511*

Republic Act No. 9511 (RA 9511), which took effect on December 20, 2008, granted the Group, through NGCP a fifty (50) year franchise from effectivity date to operate, manage and maintain, and in connection therewith, to engage in the business of conveying or transmitting electricity through high voltage back-bone system of interconnected transmission lines, substations and related facilities, system operations, and other activities that are necessary to support the safe and reliable operation of a transmission system and to construct, install, finance, manage, improve, expand, operate, maintain, rehabilitate, repair and refurbish the present nationwide transmission system of the Republic of the Philippines.

Pursuant to Section 9 of RA 9511, in consideration of the franchise and rights granted, the Group pays a franchise tax equivalent to three percent (3%) of all gross receipts derived from its operation under the franchise, in lieu of income tax and any and all taxes, duties, fees and charges of any kind, nature or description levied, established or collected on its franchise, rights, privileges, receipts, revenues and profits, and on properties used in connection with its franchise except for real property tax on real estate, buildings and personal property, exclusive of the franchise (see Note 26).

Pursuant to Section 8 of RA 9511, NGCP is required to list, subject to the requirements of the SEC and the PSE, and make a public offering of the shares representing at least twenty *per centum* (20%) of its outstanding capital stock or a higher percentage that may hereafter be provided by law within ten (10) years from the commencement of its operations. Provided, that the listing in the PSE of any company which directly or indirectly owns or controls at least thirty per centum (30%) of the outstanding shares of stock of NGCP shall be considered full compliance of this listing requirement. In case compliance with this requirement is not reached, the ERC may, upon application of NGCP, and after notice and hearing, allow such reasonable extension of the period within which NGCP should list its shares of stock, if the market condition is not suitable for such listing. NGCP has complied with this requirement on November 12, 2021, as confirmed by ERC in its order dated May 26, 2022 under ERC Case No. 2018 - 014MC. The Parent Company who is listed in the PSE, indirectly owns NGCP after the completion of the Share Swap transaction and the Follow On Offering in 2021.

The Parent Company's registered office address is Unit 1602, 16th Floor, Tycoon Center Bldg. Condominium, Pearl Drive, Pasig City, Metro Manila.

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## **2. Basis of Preparation**

### Statement of Compliance

These consolidated financial statements have been prepared in compliance with Philippine Financial Reporting Standards (PFRS). PFRS are based on International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB). PFRS consist of PFRS, Philippine Accounting Standards (PAS), and Philippine Interpretations issued by the Financial and Sustainability Reporting Standards Council (FSRSC).

The accompanying consolidated financial statements were authorized for issue by the Board of Directors (BOD) on April 8, 2024.

### Basis of Measurement

The consolidated financial statements have been prepared on the historical cost basis of accounting, and retirement benefits liability, which has been measured at fair value of plan assets less the present value of the defined benefit obligation.

### Functional and Presentation Currency

These consolidated financial statements are presented in Philippine peso, which is the Group's functional currency. All financial information has been rounded off to the nearest peso, except when otherwise indicated.



#### Basis of Consolidation

The consolidated financial statements include the financial statements of Parent Company and its subsidiaries.

A subsidiary is an entity controlled by the Group. Control exists when an investor 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. The Group reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control.

When the Group has less than majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including the contractual arrangement with other vote holders of the investee, rights arising from other contractual arrangements and the Group's voting rights and potential voting rights.

The financial statements of the subsidiaries are included in the consolidated financial statements from the date that control commences until the date such control ceases.

The financial statements of the subsidiaries are prepared for the same reporting period as the Parent Company, using uniform accounting policies for like transactions and other events under similar circumstances. Intergroup balances and transactions, including intergroup realized profits and losses, are eliminated in preparing both the consolidated financial statements.

Non-controlling interests represent the portion of profit or loss and net assets not attributable to the Parent Company and are presented in the consolidated statements of income and within equity in the consolidated statements of financial position, separately from the equity attributable to equity holders of the Parent Company.

Non-controlling interests include the interests not held by the Parent Company in its subsidiary as follows: OTHI, P21 and NGCP.

A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction. If the Group loses control over a Subsidiary, the Group: (i) derecognizes the assets (including goodwill) and liabilities of the Subsidiary, the carrying amount of any non-controlling interests and the cumulative transaction differences recorded in equity; (ii) recognizes the fair value of the consideration received, the fair value of any investment retained and any surplus or deficit in the consolidated statements of comprehensive income; and (iii) reclassify the Parent Company's share of components previously recognized in other comprehensive income to profit or loss or retained earnings, as appropriate, as would be required if the Group had directly disposed of the related assets or liabilities.

#### Use of Judgments and Estimates

The preparation of the consolidated financial statements in conformity with PFRS requires management to make judgments, estimate and assumptions that affect the application of accounting policies and reported amounts of assets, liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgments about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

Judgments are made by management on the development, selection and disclosure of the Group's critical accounting policies and estimates and the application of these policies and estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized on the period on which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

In particular, information about significant areas of estimation, uncertainty and critical judgments in applying accounting policies that have the most significant effect on the amount recognized in the consolidated financial statements is as follows:

*Determining the Fair Value of Financial Instruments*

The Group's financial assets and financial liabilities measured at fair value, require the use of accounting estimates and judgment. The significant components of fair value measurement were determined using verifiable objective evidence (i.e., foreign exchange rates, interest rates). Any changes in fair value of these financial assets and liabilities would affect the consolidated statements of income and consolidated statements of changes in equity.

The fair values of the Group's financial instruments are presented in Note 24 to the consolidated financial statements.

*Service Concession Arrangements as Operator*

Based on management's judgment, the provisions of Philippine Interpretation IFRIC 12, *Service Concession Arrangements* apply to the Group. The consideration receivable under the concession agreement is accounted for as a financial asset or an intangible asset according to its substance, considering the terms of the arrangement as a whole. A financial asset is recognized to the extent that the Group receives an unconditional right to receive cash irrespective of the use of the infrastructure. An intangible asset is recognized to the extent that the Group receives a right (license) to charge users of the transmission system.

*Concession Rights*

The Group's service concession agreement was accounted for under the intangible asset model where it recognized an intangible asset arising from its agreement to pay the Concession Fee and as consideration for construction services it provides. The intangible asset represents the right (license) the Group received to charge users of the transmission system in accordance with the rates approved by the ERC, the Regulator, pursuant to Republic Act No. 9136. The Group does not receive an unconditional right to receive cash from or at the direction of the grantor where the grantor contractually guarantees to pay the Group specified or determinable amounts or any shortfall between amounts received from users of the transmission system and specified or determinable amounts (see Notes 4, 5 and 8).

#### *Determining the Transaction Price - Regulated Transmission Services*

A complex regulatory rate-setting process is in place intended for the recovery of costs and reasonable margin, where amounts are subject to review and adjustment or correction for various factors, being done annually and at the end of each 5-year regulatory period where revenue can be adjusted for over- or under-recoveries. The Group assessed that in the absence of other ERC issuance or directive that states otherwise (i.e. that revenue has been modified), similar to the practice adopted by the industry, the amounts chargeable to customers based on the currently effective Maximum Allowed Revenue (MAR) remains to best represent the transaction price for its transmission services in a reporting period, considering the substantive nature of the ERC's approvals under the present rules and regulations as well as the degree of uncertainty in terms of timing and amounts (see Notes 4, 20 and 27).

In determining the transaction price, an entity is required to adjust the promised amount of consideration for the effects of the time value of money if that contract contains a significant financing component. The Group has assessed that the revenue accrued for iMAR and under-recovery to be collected in succeeding years do not have a significant financing component because the timing difference arises for non-finance reasons and a substantial portion of the consideration is variable, and the amount or timing of the consideration is outside the customer's or entity's control. The timing of payments is not specified in revenue contracts to intend any significant benefit of financing from both the Group and its customers, and the determination of iMAR and recovery scheme of incremental revenue is decided purely by the ERC and is beyond the control of the Group or its customers.

#### *Estimating Accrued Transmission Revenue*

Revenue is billed covering the period which starts from the 26th day of the current month to the 25th day of the following month while recognition is based on calendar month. The recognition of unbilled revenues as at month-end cut-off date requires the use of estimates based on the number of days of the customers' unbilled consumption.

The carrying amount of the Group's accrued power receivables as at December 31, 2023 and 2022 amounted to P19.24 billion (see Note 12).

#### *Estimating Allowance for Impairment Losses on Receivables*

The Group has elected to measure loss allowances for receivables at an amount equal to lifetime expected credit loss (ECL).

When determining whether the credit risk of a financial asset has increased significantly since initial recognition and when estimating ECL, the Group considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis, based on the Group's historical experience and informed credit assessment and including forward-looking information.

As at December 31, 2023 and December 31, 2022, the analysis of allowance for impairment losses on receivables is presented in Note 12.

#### *Estimating Useful Lives of Property and Equipment*

The Group estimates the useful lives of property and equipment based on the period over which the assets are expected to be available for use. The estimated useful lives of property 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, estimation of the useful lives of property and equipment is based on the collective assessment of industry practice, internal technical evaluation and experience with similar assets. It is possible, however, that future results of operations could be materially affected by changes in these estimates brought about by changes in the factors mentioned above. The amounts and timing of recorded expenses for any period would be affected by the changes in these factors and circumstances.

A reduction in the estimated useful lives of property and equipment would increase the recorded depreciation and amortization expenses and decrease noncurrent assets.

The carrying amount of the Group's property and equipment as at December 31, 2023 and 2022 amounted to P4.99 billion and P5.06 billion, respectively (see Note 10).

*Estimating Net Realizable Value of Materials, Spare Parts and Supplies*

The Group carries spare parts and supplies at net realizable value when such value is lower than cost due to damage, physical deterioration and obsolescence. The estimated net realizable value is reviewed regularly.

No write-down was recognized in profit or loss in 2023 and 2022. As at December 31, 2023 and 2022, accumulated amount of write-down of spare parts and supplies amounted to P346.27 million (see Note 13).

*Estimating Useful Life of Intangible Asset*

The Group estimates the useful life of intangible asset arising from service concession based on the period over which the asset is expected to be available for use during the concession period. The Group has not included any renewal period on the basis of uncertainty, as at reporting date, of the probability of securing renewal contract at the end of the original contract term.

The Group also estimates the useful life of its computer software and license based on the period over which assets are expected to be available for use. The estimated useful life of computer software and license is updated if expectations differ from previous estimates due to technical or commercial obsolescence and legal or other limits on the use of the assets. In addition, the estimation of the useful life of computer software and license is based on collective assessment of internal technical evaluation and experience with similar assets. It is possible, however, 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 recorded expenses for any period would be affected by changes in these factors and circumstances.

The carrying amount of the Group's intangible asset as at December 31, 2023 and 2022 amounted to P378.01 billion and P331.43 billion, respectively (see Note 8).

#### *Estimating the Residual Value of Intangible Assets*

The estimated residual value of the intangible assets at the end of concession contract was determined based on the quotient of the actual costs of transmission assets commissioned by the Group during the concession period and the ERC approved estimated asset lives multiplied by the difference of the asset life and the remaining life of concession. Under this scenario, the residual value of intangible assets refers to the portion of investment in the additional completed transmission assets that could not be recovered thru regulatory reset filing as at the end of the concession period and shall be excluded from the value of intangible assets to be amortized over the remaining concession period and will be charged against the Recovery Payment at the end of the period.

As at December 31, 2023 and 2022, the estimated residual value of intangible assets from completed projects at the end of the concession period amounted to P76.71 billion and P45.11 billion, respectively.

#### *Impairment of Goodwill*

The Group determines whether goodwill is impaired at least annually. This requires the estimation of value in use of the cash-generating units to which the goodwill is allocated. Estimating value in use requires management to make an estimate of the expected future cash flows and to choose a suitable discount rate to calculate the present value of those cash flows.

No impairment loss was recognized on goodwill for December 31, 2023 and 2022. The carrying amount of goodwill amounted to P10.47 billion as at December 31, 2023 and December 31, 2022 (see Note 9).

#### *Reliable Measure of the Recovery Payment*

The calculation of the Recovery Payment is complex and will involve the use of variables that will only be determined in the future, including among others the use of an input based on the value of the Group's RAB at termination date which is partly dependent on future capital expenditures and recoveries. Based on management's judgment, considering further that the Recovery Payment will only be determinable at termination date by a mutually appointed independent appraiser, estimation of the residual value in the current period involves a significantly high level of estimation uncertainty such that the amount is not yet reliably measurable at this point.

#### *Estimating Retirement Benefits*

The determination of the Group's obligation and cost for retirement benefits is dependent on the selection of certain assumptions used in calculating such amounts including discount rates and salary increase rates.

Remeasurements of retirement benefits liability are recognized in other comprehensive income and comprise of actuarial gains and losses on the retirement benefit obligation excluding amounts included in the net interest of the retirement benefits liability.

Retirement benefits cost recognized in profit or loss in 2023 and 2022 amounted to P300.20 million and P279.12 million, respectively. Retirement benefits liability as at December 31, 2023 and 2022 amounted to P2.62 billion and P2.09 billion, respectively (see Note 23).

#### *Impairment of Nonfinancial Assets*

In accordance with the Group's policy on impairment of nonfinancial assets, the Group performs an impairment test when certain impairment indicators are present. In determining the present value of future cash flows expected to be generated from the continued use of the assets, the Group is required to make estimates and assumptions that can materially affect the consolidated financial statements.

Management believes that there is no indication of impairment loss in the carrying value of the Group's property and equipment and intangible asset as at December 31, 2023 and December 31, 2022.

#### *Contingencies*

The Group is currently involved in various legal proceedings. The estimate of the probable costs for the resolution of these claims shall be developed in consultation with the legal counsels handling these matters and based on analysis of potential results. It is possible, however, that future financial position and performance could be affected by changes in the estimates or in the effectiveness of the strategies relating to these proceedings (see Note 25).

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### **3. Material Accounting Policies**

The Financial and Sustainability Reporting Standards Council (FSRSC) approved the adoption of amendments to standards and interpretations as part of PFRS. The following standard is relevant to the Group and has been adopted starting January 1, 2023. Unless otherwise stated, the adoption of the amendments did not have a material effect to the financial statements.

- *Disclosure of Accounting Policies (Amendments to IAS 1, Presentation of Financial Statements and IFRS Practice Statement 2 Making Materiality Judgements).* The amendments are intended to help companies provide useful accounting policy disclosures. The key amendments to IAS 1 include:
  - requiring companies to disclose their material accounting policies rather than their significant accounting policies;
  - clarifying that accounting policies related to immaterial transactions, other events or conditions are themselves immaterial and as such need not be disclosed; and
  - clarifying that not all accounting policies that relate to material transactions, other events or conditions are themselves material to a company's financial statements.

The amendments to PFRS Practice Statement 2 include guidance and additional examples on the application of materiality to accounting policy disclosures assisting companies to provide useful, entity-specific accounting policy information that users need to understand other information in the financial statements.

Although the amendments did not result in any changes to the accounting policies themselves, they impacted the accounting policy information disclosed in the financial statements.

Management reviewed the accounting policies and made updates to the information disclosed in Note 3 Material Accounting Policies in certain instances in line with the amendments.

- *Definition of Accounting Estimates (Amendments to PAS 8, Accounting Policies, Changes in Accounting Estimates and Errors)*. To clarify the distinction between changes in accounting policies and changes in accounting estimates, the amendments introduce a new definition for accounting estimates, clarifying that they are monetary amounts in the financial statements that are subject to measurement uncertainty.

The amendments also clarify the relationship between accounting policies and accounting estimates by specifying that an accounting estimate is developed to achieve the objective set out by an accounting policy.

Developing an accounting estimate includes both selecting a measurement technique and choosing the inputs to be used when applying the chosen measurement technique. The effects of changes in such inputs or measurement techniques are changes in accounting estimates.

The definition of accounting policies remains unchanged. The amendments also provide examples on the application of the new definition.

The amendments will apply prospectively to changes in accounting estimates and changes in accounting policies occurring on or after the beginning of the first annual reporting period in which the amendments are applied.

#### Amended Standards Not Yet Adopted

A number of amendments to standards are effective for annual periods beginning after January 1, 2023 and have not been applied in preparing these financial statements. Unless otherwise stated, none of these are expected to have a significant impact on the Group's financial statements.

- *Classification of Liabilities as Current or Noncurrent - 2020 amendments and Non-Current Liabilities with Covenants - 2022 amendments (Amendments to PAS 1, Presentation of Financial Statements)*. To promote consistency in application and clarify the requirements on determining whether a liability is current or noncurrent, the amendments:
  - removed the requirement for a right to defer settlement of a liability for at least 12 months after the reporting period to be unconditional and instead requires that the right must have substance and exist at the end of the reporting period;
  - clarified that only covenants with which a company must comply on or before the reporting date affect the classification of a liability as current or non-current and covenants with which the entity must comply after the reporting date do not affect a liability's classification at that date;
  - provided additional disclosure requirements for non-current liabilities subject to conditions within twelve months after the reporting period to enable the assessment of the risk that the liability could become repayable within twelve months; and
  - clarified that settlement of a liability includes transferring an entity's own equity instruments to the counterparty, but conversion options that are classified as equity do not affect classification of the liability as current or noncurrent.

The amendments apply retrospectively for annual reporting periods beginning on or after January 1, 2024, with early application permitted. Entities that have early applied the 2020 amendments may retain application until the 2022 amendments are applied. Entities that will early apply the 2020 amendments after issue of the 2022 amendments must apply both amendments at the same time.

#### Service Concession Arrangements

Public-to-private service concession arrangements where: (a) the grantor controls or regulates what services the Group must provide with the infrastructure, to whom it must provide them, and at what price; and (b) the grantor controls through ownership, beneficial entitlement or otherwise any significant residual interest in the infrastructure at the end of the term of the arrangement are accounted for under the provisions of Philippine Interpretation IFRIC 12. Infrastructures used in a public-to-private service concession arrangement for its entire useful life (whole-of-life assets) are within the scope of Philippine Interpretation IFRIC 12 if the conditions in (a) are met.

Philippine Interpretation IFRIC 12 applies to both: (a) infrastructure that the Group constructs or acquires from a third party for the purpose of the service arrangement; and (b) existing infrastructure to which the grantor gives the Group access for the purpose of the service arrangement.

Infrastructures within the scope of Philippine Interpretation IFRIC 12 are not recognized as property and equipment of the Group. Under the terms of contractual arrangements within the scope of Philippine Interpretation IFRIC 12, the Group acts as a service provider. The Group constructs and upgrades infrastructure (construction or upgrade services) used to provide a public service and operates and maintains that infrastructure (operation services) for a specified period of time.

The Group recognizes a financial asset to the extent that it has an unconditional contractual right to receive cash or another financial asset from or at the direction of the grantor for the construction services. The Group recognizes an intangible asset to the extent that it receives a right (a license) to charge users of the public service.

When the Group has contractual obligations it must fulfill as a condition of its license: (a) to maintain the infrastructure to a specified level of serviceability or (b) to restore the infrastructure to a specified condition before it is handed over to the grantor at the end of the service arrangement, it recognizes and measures these contractual obligations in accordance with PAS 37, *Provisions, Contingent Liabilities and Contingent Assets*, i.e., at the best estimate of the expenditure that would be required to settle the present obligation at the reporting date. Repairs and maintenance and other expenses that are routine in nature are expensed and recognized in the profit or loss as incurred.

In accordance with PAS 23, *Borrowing Costs*, borrowing costs attributable to the arrangement are recognized as an expense in the period in which they are incurred unless the Group has a contractual right to receive an intangible asset (a right to charge users of the public service). In this case, borrowing costs attributable to the arrangement are capitalized during the construction phase of the arrangement.



#### Intangible Asset

##### *Service Concession Arrangement*

The Group recognizes an intangible asset arising from the service concession arrangement through Concession Right when it acquired the right to charge for usage of the concession infrastructure. An intangible asset received as consideration for providing construction or upgrade services in a service concession arrangement is measured at fair value upon initial recognition. Subsequent to initial recognition, the intangible asset is measured at cost, which includes capitalized borrowing costs, less accumulated amortization and accumulated impairment losses, if any.

*Concession Rights.* Concession rights are purchased and recognized at cost at the date of acquisition and consists of:

- a. Concession fees pursuant to Article 6 of the Concession Agreement, broken down into commencement fee and deferred payments, add/deduct adjustments pertaining to IWC, PUC and RSTA; and
- b. The intangible asset resulting from the cost of infrastructures constructed and under construction, including related borrowing costs. These are not recognized as property and equipment of the Group but as intangible asset.

Subsequent performance of construction and upgrade services results to the increase in the rights/license to charge users of the public service and the corresponding future revenue received by the Group, representing an enhancement of the intangible asset. Subsequent expenditure is capitalized only when it increases the future economic benefits embodied in the specific asset to which it relates.

Intangible asset is assessed for impairment whenever there is an indication that the intangible asset may be impaired. Amortization is calculated over the cost of the intangible asset less any determined residual value. Amortization is recognized in profit or loss based on the expected pattern of consumption of future economic benefits embodied in the asset over the life of the concession period. The estimated useful life of the intangible asset is determined to be the period over which the Group can charge for usage of the concession infrastructure but not more than the concession period which is twenty-five (25) years. The amortization method, useful life and residual value are reviewed at each reporting date and adjusted, if appropriate. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are accounted for by changing the amortization period or method, as appropriate, and are treated as changes in accounting estimates. The amortization expense is recognized in profit or loss in the expense category consistent with the function of the intangible asset.

#### Business Combinations under Common Control

The Group accounts for business combinations involving entities that are ultimately controlled by the same ultimate parent before and after the business combination and the control is not transitory, using pooling of interests method.

The assets and liabilities of the combining entities are reflected in the consolidated statements of financial position at their carrying amounts. No adjustments are made to reflect fair values, or recognize any new assets or liabilities, at the date of the combination. The only adjustments are those to align accounting policies between combining entities.

No new goodwill is recognized as a result of the business combination. The only goodwill that is recognized is any existing goodwill relating to either of the combining entities. Any difference between the consideration paid or transferred and the equity acquired is recognized in equity.

The consolidated statements of income reflect the results of the combining entities for the full year, irrespective of when the combination took place.

Comparatives are presented as if the entities had been combined for the period that the entities were under common control (see Note 6).

#### Non-controlling Interests

The acquisitions of non-controlling interests are accounted for as transactions with owners in their capacity as owners and therefore no goodwill is recognized as a result of such transactions. Any difference between the purchase price and the net assets of the acquired entity is recognized in equity. The adjustments to non-controlling interests are based on a proportionate amount of the identifiable net assets of the subsidiary (see Note 7).

#### Financial Instruments

##### *Recognition and Initial Measurement*

A financial instrument is recognized if the Group becomes a party to the contractual provisions of the instrument. Regular way purchases or sales of financial assets are accounted for at settlement date, i.e., the date that an asset is delivered to or by the Group.

Financial instruments are classified as liabilities or equity in accordance with the substance of the contractual arrangement. Interest, dividends, gains and losses relating to a financial instrument classified as a liability are reported as expense or income. Distributions to holders of financial instruments classified as equity are charged directly to equity.

A financial asset (unless it is a trade receivable without a significant component that is initially measured at the transaction price) or financial liability is initially measured at fair value plus, transaction costs that are directly attributable to its acquisition.

##### *Classification and Measurement of Financial Assets*

On initial recognition, a financial asset is classified and measured at: amortized cost; FVOCI - debt investment; FVOCI - equity investment; or FVTPL. The classification of financial assets is generally based on the business model in which a financial asset is managed and its contractual cash flow characteristics.

A financial asset is measured at amortized cost if it meets both of the following conditions and is not designated as at FVTPL:

- it is held within a business model whose objective is to hold assets to collect contractual cash flows; and
- its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

The Group's cash and cash equivalents and receivables are included in this category.

**Business Model Assessment.** The Group makes an assessment of the objective of the business model in which a financial asset is held at a portfolio level because this best reflects the way the business is managed, and information is provided to the management. The information considered includes:

- the stated policies and objectives for the portfolio and the operation of those policies in practice. These include whether management's strategy focuses on earning contractual interest income, maintaining a particular interest rate profile, matching the duration of the financial assets to the duration of any related liabilities or expected cash outflows or realizing cash flows through the sale of the assets;
- how the performance of the portfolio is evaluated and reported to the Group's management;
- the risks that affect the performance of the business model (and the financial assets held within that business model) and how those risks are managed;
- how managers of the business are compensated - e.g., whether compensation is based on the fair value of the assets managed or the contractual cash flows collected; and
- the frequency, volume and timing of sales of financial assets in prior periods, the reasons for such sales and expectations about future sales activity.

Transfers of financial assets to third parties in transactions that do not qualify for derecognition are not considered sales for this purpose, consistent with the Group's continuing recognition of the assets.

**Assessment Whether Contractual Cash Flows are Solely Payments of Principal and Interest.** For the purposes of this assessment, "principal" is defined as the fair value of the financial asset on initial recognition. "Interest" is defined as consideration for the time value of money and for the credit risk associated with the principal amount outstanding during a particular period of time and for other basis lending risks and costs (e.g., liquidity risk and administrative costs), as well as profit margin.

In assessing whether the contractual cash flows are solely payments of principal and interest, the Group considers contractual terms of the instrument. This includes assessing whether the financial asset contains a contractual term that could change the timing or amount of the contractual cash flows such that it would not meet these conditions. In making this assessment, the Group considers:

- contingent events that would change the amount or timing of cash flows;
- terms that may adjust the contractual coupon rate, including variable rate features;
- prepayment and extension features; and
- terms that limit the Group's claim to cash flows from specified assets (e.g., non-recourse features).

A prepayment feature is consistent with the solely payments of principal and interest criterion if the prepayment amount substantially represents unpaid amounts of principal and interest on the principal amount outstanding, which may include reasonable additional compensation for early termination of the contract. Additionally, for a financial asset acquired at a discount or premium to its contractual par amount, a feature that permits or requires prepayment at an amount that substantially represents the contractual par amounts plus accrued (but unpaid) contractual interest (which may also include reasonable additional compensation for early termination) is treated as consistent with this criterion if the fair value of the prepayment feature is insignificant at initial recognition.

The Group determines that the business model for financial assets at amortized cost is held to collect contractual cash flows and meets the solely principal and interest criterion as of December 31, 2023 and 2022.

*Financial Assets at Amortized Cost.* These assets are subsequently measured at amortized cost using the effective interest method. The amortized cost is reduced by impairment losses. Interest income, foreign exchange gains and losses and impairment are recognised in profit or loss. Any gain or loss on derecognition is recognized in profit or loss.

*Debt Investments at FVOCI.* These assets are subsequently measured at fair value. Interest income calculated using the effective interest method, foreign exchange gains and losses and impairment are recognised in profit or loss. Other net gains and losses are recognised in OCI. On derecognition, gains and losses accumulated in OCI are reclassified to profit or loss.

*Equity Investments at FVOCI.* These assets are subsequently measured at fair value. Dividends are recognised as income in profit or loss unless the dividend clearly represents a recovery of part of the cost of the investment. Other net gains and losses are recognized in OCI and are never reclassified to profit or loss.

The equity securities represent investments that the Group intends to hold for the long term for strategic purposes.

#### *Classification and Subsequent Measurement of Financial Liabilities*

Financial liabilities that are classified as measured at amortized cost are subsequently measured at amortized cost using the effective interest method. Interest expense and foreign exchange gains and losses are recognized in profit or loss. Any gain or loss on derecognition is also recognized in profit or loss.

#### 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 when:

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

When the Group has transferred its rights to receive cash flows from an asset and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognized to the extent of the Group's continuing involvement in the asset. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset or the maximum amount of consideration that the Group could be required to pay.

*Financial Liabilities.* A financial liability is derecognized when the obligation under the liability is discharged or cancelled or has expired. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognized in profit or loss.

#### Offsetting Financial Instruments

Financial assets and financial liabilities are offset, and the net amount is reported in the consolidated statements of financial position if, and only if, there is a currently enforceable legal 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. This is not generally the case with master netting agreements, and the related assets and liabilities are presented gross in the consolidated statements of financial position.

#### Debt Issuance Costs

Debt issuance costs are directly attributable transaction costs considered as discount of the related debts upon initial measurement and are subsequently amortized over the expected life of the instrument under the effective interest method.

#### Borrowing Costs

Borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset are capitalized as part of the respective asset. A qualifying asset is an item of asset that necessarily takes a substantial period of time to get ready for its intended use. Capitalization of borrowing costs commences when the activities to prepare the asset are in progress and expenditures and borrowing costs are being incurred, and ceases when the assets are substantially ready for their intended use.

#### Property and Equipment

Property and equipment are carried at cost less accumulated depreciation and impairment losses, if any.

Initially, an item of property and equipment is measured at cost, which comprises its purchase price and any directly attributable costs of bringing the asset to the location and condition for its intended use. Subsequent costs that can be measured reliably are added to the carrying amount of the asset when it is probable that future economic benefits associated with the asset will flow to the Group. The costs of day-to-day servicing of an asset are recognized as an expense in the period in which it is incurred.

Depreciation is computed on a straight-line basis over the estimated useful lives.

The estimated useful lives of these assets are as follows:

	Number of Years
Structures and improvements	30
Transportation equipment	10
Machinery and equipment	10
Office furniture and fixtures	5 - 10

The useful lives and depreciation and amortization method are reviewed at each reporting date to ensure that they are consistent with the expected pattern of economic benefits from those assets.

When an asset is disposed of or is permanently withdrawn from use and no future economic benefits are expected from its disposal, the cost and the accumulated depreciation, amortization and impairment losses, if any, are removed from the accounts and any resulting gain or loss arising from the retirement or disposal is recognized in profit or loss.

#### Prepaid Expenses and Other Current Assets

*Advance Payment to Suppliers and Contractors.* Advance payment to suppliers and contractors is reclassified to proper asset account and deducted from the contractor's billings as specified in the provisions of the contract.

Spare parts and supplies inventories are valued at the lower of cost or net realizable value. Net realizable value is the current replacement cost.

Cost is determined by using the moving weighted average method. If the cost of inventories exceeds its net realizable value, provisions are made currently for the difference between the cost and the net realizable value.

Prepaid expenses are expenses paid in advance and recorded as asset before they are utilized.

#### Impairment of Assets

##### *Financial Instruments and Contract Assets*

The Group recognizes loss allowances for ECLs on financial assets measured at amortized cost and contract assets.

The Group measures loss allowances at an amount equal to lifetime ECLs, except for the following, which are measured as 12-month ECLs:

- debt securities that are determined to have low credit risk at the reporting date; and
- other debt securities and bank balances for which credit risk (i.e., the risk of default occurring over the expected life of the financial instrument) has not increased significantly since initial recognition.

The Group has elected to measure loss allowances for power, other receivables and contract assets at an amount equal to lifetime ECLs.

When determining whether the credit risk of a financial asset has increased significantly since initial recognition and when estimating ECLs, the Group considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis, based on the Group's historical experience and informed credit assessment and including forward-looking information.

The Group assumes that the credit risk on a financial asset has increased significantly if it is more than 30 days past due.

The Group considers a financial asset to be in default when:

- the borrower is unlikely to pay its credit obligations to the Group in full, without recourse by the Group to actions such as realizing security (if any is held); or
- the financial asset is also more than 90 days past due.

The Group considers a debt security to have low credit risk when its credit risk rating is equivalent to the globally understood definition of 'investment grade'.

The maximum period considered when estimating ECLs is the maximum contractual period over which the Group is exposed to credit risk.

*Measurement of ECLs.* ECLs are a probability-weighted estimate of credit losses. Credit losses are measured as the present value of all cash shortfalls (i.e., the difference between the cash flows due to the entity in accordance with the contract and the cash flows that the Group expects to receive).

ECLs are discounted at the effective interest rate of the financial asset. ECLs reflect reasonable and supportable information that is available without undue cost or effort about past events, current conditions and forecasts of future economic conditions.

*Credit-impaired Financial Assets.* At each reporting date, the Group assesses whether financial assets carried at amortised cost and debt securities at FVOCI are credit-impaired. A financial asset is 'credit-impaired' when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred. Evidence that a financial asset is credit-impaired include observable data about the following events:

- significant financial difficulty of the issuer or the borrower;
- a breach of contract, such as a default or past due event;
- the lender(s) of the borrower, for economic or contractual reasons relating to the borrower's financial difficulty, having granted to the borrower a concession(s) that the lender(s) would not otherwise consider;
- it is becoming probable that the borrower will enter bankruptcy or other financial reorganization;
- the disappearance of an active market for that financial asset because of financial difficulties; or
- the purchase or origination of a financial asset at a deep discount that reflects the incurred credit losses.

Presentation of impairment loss allowances for financial assets measured at amortised cost are deducted from the gross carrying amount of the assets.

Impairment losses related to power, other receivables and contract assets are presented separately in the statements of profit or loss and OCI.

#### Nonfinancial Assets

The carrying amounts of nonfinancial assets such as intangible assets, property and equipment and other noncurrent assets are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. The recoverable amount of an asset is the greater of its value in use and its fair value less costs to sell. The fair value less costs to sell is the amount obtainable from the sale of an asset in an arm's length transaction less the cost of disposal while value in use is the present value of estimated future cash flows expected to arise from the continuing use of an asset and from its disposal at the end of its useful life. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For the purpose of impairment testing, assets are grouped together into the smallest group of assets that generate cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets (the cash-generating unit).

Reversal of provision for impairment losses previously recognized is recorded when the decrease can be objectively related to an event occurring after the write-down. Such reversal is recorded as income. However, the increased carrying amount is only recognized to the extent that it does not exceed what carrying value would have been had the impairment not been recognized.

All impairment losses are recognized in profit or loss.

#### Equity

**Capital Stock.** Capital stock represents the nominal value of shares that have been issued. Incremental cost directly attributable to the issue of stock, if any, are recognized as a deduction from equity, net of any tax effects.

**Additional Paid-in Capital.** Additional paid-in capital represents the excess of consideration received over the par value of capital stock.

**Remeasurements of Defined Benefits Liability.** Remeasurements of defined benefits liability comprise actuarial gains and losses which are recognized immediately in other comprehensive income.

**Equity Adjustments from Common Control Transactions.** Equity adjustments from common control transactions represents the difference between the purchase price and the net assets of the acquired entity.

**Retained Earnings.** Retained earnings represent the cumulative balance of net income or loss, dividend distributions, effect of changes in accounting policy and other capital adjustments.

#### Revenue and Expense Recognition

##### Revenue from Transmission Services Operating Income

Transmission services operating income pertains to service charges for the use of the transmission facilities under the Concession Agreement where power delivery, system operation and metering services are provided by the Group.

The Group's performance obligations in transmission services include the supply of power delivery service, system operation and metering service. These three services are considered as a bundle and are accounted for as one performance obligation.



Revenue from transmission services is recognized when control has been transferred to the customer and the Group has an enforceable right to payment. This is recognized over time as the customer simultaneously receives and consumes the benefits provided by the Group's performance as the Group performs. Revenue from transmission services is recognized upon supply of power to the customer's connection points.

Revenue is measured as the transaction price referred from the approved Maximum Allowed Revenue (MAR) by ERC. During the reset process, the ERC makes a determination of the annual revenue requirements of the transmission business as well as the price control arrangements that will apply during the regulatory period.

*Revenue from Connection and Residual Sub-transmission Charges*

Connection charges are charges to recover the reasonable costs associated with connecting the transmission customers' facilities to the transmission providers' facilities. These are payable by generation customers on new connection assets and payable by load customers on existing and new connection assets. Residual sub-transmission charges are charges to recover the reasonable costs associated with sub-transmission assets that are not otherwise recovered through the connection charge. These charges are payable by load customers or generation customers.

The connection charges and residual sub-transmission charges are considered each as different performance obligations of the Group which are both satisfied over time, the same with transmission services.

Revenue from connection and residual sub-transmission charges are recognized when control has been transferred to the customer and the Group has an enforceable right to payment. Revenue from connection and residual sub-transmission charges are recognized upon supply of power to the customer's connection points.

The revenue is measured as the transaction price referred from the approved rates by ERC in its decision dated July 6, 2011 under ERC case no. 2008-066RC and 2009-153 RC.

The Billing period starts from the 26th day of the current month to the 25th day of the following month. Within five (5) days after the Billing Period, the Group shall issue billing invoice/billing statement or "Power Bill" to each customer, detailing all charges and credits for that previous Billing Period.

Basic charges are direct revenues of the Group. The components of the "Billing Statement" to the customer are as follows:

1. Power delivery service charge
2. Connection charge
3. Residual sub-transmission charge
4. Metering service charge
5. System operator charge
6. Adjustments such as Interruption Billing Adjustment, Curtailment Billing Adjustment and Temporary Transmission Service Discount, if applicable.

The Group has assessed its revenue arrangement against specific criteria in order to determine if it is acting as principal or agent and concluded that it is not a principal with respect to the Ancillary Service Charges (ASC), Universal Charges (UC) and Feed-in-tariff (FIT-ALL) Charges.

The Group was authorized to engage in ancillary service business through Section 1 of RA 9511 and through Ancillary Service Procurement Plan (ASPP). These are services that are essential to the management of power system security, that facilitate orderly trading in electricity and ensure that electricity supplies are of an acceptable quality. With reference to Section 43 of R.A No. 9136, NGCP is allowed to charge user fees for ancillary services to all electric power industry participants or self-generating entities connected to the grid. Further, as per Ancillary Services - Cost Recovery Mechanism (AS-CRM), charges should be completely passed-on from the user or beneficiary of the service to the service provider.

FIT-ALL and UC are charges that is to be imposed on all On-Grid electricity consumers who are supplied with electricity through the transmission network. The FIT-All is essential to the implementation of the FIT System as established under Section 7 of R.A No. 9513, otherwise known as the Renewable Energy Act of 2008 (RE Law). UC is imposed on electricity consumers for purposes such as missionary electrification, payment of stranded debts and also for environmental charges mandated under Section 34 of the RA 9136. Issued guidelines of both FIT-ALL and UC specifically states that the collection shall not form part of the revenues of NGCP as the collecting agent. Any resulting loss due to failure to collect shall not be borne by the collecting agent.

Any billing/revenue adjustments which are caused by the following:

- change in government policies, rules and regulations;
- incorrect computation, incorrect metering of data, and the like shall be made through issuance of a debit/credit memo in accordance with the Open Access Transmission Services Rules. A debit/ credit memo shall be booked in the period in which the related adjustment is noted.

Since the Group bills transmission customers from the 26th of the previous month to 25th of the current month, at each reporting date, the Group shall record revenue for the remaining days of the reporting month. The Group shall accrue revenue in proportion to what should be recorded as revenue for this period and in accordance with the estimation procedure determined by management, from time to time.

The Group may engage in related business such as Rental of facilities and equipment and Co-location, antenna attachments, use of building lots and space, use of access roads, attachment of telephone cables, and tapping to AC/DC power sources.

Interest income is recognized when earned.

*Revenue from Construction and Upgrade Services (Construction Revenues and Costs)*

Under Philippine Interpretation IFRIC 12, revenue related to construction or upgrade services under a service concession agreement is recognized over time, consistent with the Group's accounting policy on recognizing revenue on construction contracts. Operation or service revenue is recognized in the period in which the services are provided by the Group. If the service concession arrangement contains more than one performance obligation, then the consideration received is allocated with reference to the relative stand-alone selling prices of the services rendered. No margin has been recognized since the estimated selling price approximates the construction costs. The estimated selling price is classified as a contract asset under Intangible assets during the construction or upgrade period in accordance with PFRS 15.

#### *Cost and Expense Recognition*

Expenses are recognized when incurred.

Construction costs comprise of all expenses related to the construction contracts.

#### Concession Fee Payable

Concession fee payable is recognized at the commencement date as the present value of the concession fee converted to Philippine peso at a fixed exchange rate equal to P42.75 for every US dollar under IFRIC 12. Upon recognition of intangible assets, transferable asset and initial working capital, the Group also recognized the corresponding concession fee payable. Payments to concession fee payable are classified into 25% commencement fee and 75% semi-annual deferred payment subject to interest pursuant to Schedule 5 of concession agreement.

Concession fee payable that are expected to be settled for no more than twelve (12) months after the reporting period are classified as current portion of concession fee payable. Otherwise, these are classified as noncurrent liabilities. Maturities of concession fee payable are shown in Note 24.

#### Employee Benefits

*Short-term Employee Benefits.* Short-term employee benefits are expensed as the related service is provided. A liability is recognized for the amount expected to be paid if the Group has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

*Retirement Benefits Cost.* The Group's net defined benefit obligation in respect of its retirement plan is calculated by estimating the amount of future benefit that employees have earned in return for their service in the current and prior periods; that benefit is discounted to determine its present value, and the fair value of any plan assets is deducted. The discount rate is the yield at the reporting date of long-term government bonds that have maturity dates approximating the terms of the Group's plan. The calculation is performed by a qualified actuary using the projected unit credit method.

Remeasurements of the net defined benefit obligation, which comprise actuarial gains and losses, the return on plan assets (excluding interest) and the effect of the asset ceiling (if any, excluding interest), are recognized immediately in OCI. The Group determines the net interest expense (income) on the net defined benefit liability (asset) for the period by applying the discount rate used to measure the defined benefit obligation at the beginning of the annual period. Net interest expense and other expenses related to defined benefit plans are recognized in profit or loss.

When the benefits of a plan are changed or when a plan is curtailed, the resulting change in benefit that relates to past service or the gain or loss on curtailment is recognized immediately in profit or loss. The Group recognizes gains and losses on the settlement of a defined benefit plan when the settlement occurs.

#### Related Party Transactions

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions. Parties are also considered to be related if they are subject to common control or significant influence. Related parties may be individuals or corporate entities.

#### Basic and Diluted Earnings Per Share (EPS)

Basic EPS is computed by dividing the net income for the period attributable to equity holders of the Parent Company, net of dividends on preferred shares, by the weighted average number of issued and outstanding common shares during the period, with retroactive adjustment for any stock dividends declared.

Diluted EPS is computed in the same manner, adjusted for the effect of all potential dilutive debt or equity instruments.

#### Provisions

Provisions are recognized only when the Group has a present legal or constructive obligation 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 on the amount of the obligation. If the effect of the time value of money is material, provisions are determined by discounting the expected future cash flows at pre-tax rate that reflects current market assessments of the time value of money and where appropriate, the risks specific to the liability. When discounting is used, the increase in the provision due to the passage of time is recognized as an interest expense. Where the Group expects a provision to be reimbursed, the reimbursement is recognized as a separate asset but only when the receipt of the reimbursement is virtually certain.

Provisions are reviewed at each reporting date and adjusted to reflect the current best estimate.

#### Contingencies

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

#### Events After the Reporting Date

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

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## **4. Concession Agreement**

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

On June 8, 2001, Republic Act No. 9136, otherwise known as the "Electric Power Industry Reform Act of 2001" (EPIRA) was passed into law. EPIRA provided for an orderly and transparent privatization of the assets and liabilities of the National Power Corporation (NPC) and created TRANSCO to assume the electrical transmission function of NPC. TRANSCO is wholly-owned by PSALM, a government-owned and controlled corporation. EPIRA also provides for the privatization of TRANSCO by directing PSALM to award in an open competitive bidding, the transmission facilities, including grid interconnections and ancillary services to a qualified party either through an outright sale or a concession agreement.

#### Concession Agreement

By virtue of its authority under EPIRA, and its Implementing Rules and Regulations, PSALM had carried out an open competitive bidding process in accordance with the Bidding Procedures dated August 1, 2007, as amended, to award a Concession for the Transmission Assets of TRANSCO.

As the bid dated December 12, 2007 (Bid Date) submitted by the consortium of MOGRC, SGIDL and CHPC (the Investors) resulted to being the highest among all the bids submitted and evaluated according to the Bidding Procedures, PSALM agreed to award the Concession to the Group, through NGCP, (Concessionaire), being the special purpose entity established by the Investors.

On February 28, 2008, the Group, through NGCP, entered into a Concession Agreement with PSALM and TRANSCO granting the Group, as Concessionaire the right to take over and operate the whole of TRANSCO's regulated transmission business as a going concern and be the sole representative of TRANSCO before the ERC. The Concession Agreement is for a 25-year period starting on January 15, 2009 (Commencement Date) and ending on January 15, 2034 (Full Term Expiration Date), which can be extended provided the concession period shall not be extended beyond the 50<sup>th</sup> anniversary of the Commencement Date (the "Term") or for longer than the remaining term of the Group, through NGCP's franchise.

The Concession Agreement provides for the following, among others:

- a) From Commencement Date and subject to the terms of the Agreement, the Concessionaire shall take over and operate the whole of TRANSCO's regulated transmission business as a going concern and be the sole representative of the regulated entity to the ERC.
- b) The ERC shall regulate the Concessionaire in carrying on the Concession Agreement in accordance with applicable law, including EPIRA or any successor legislation.
- c) The Concessionaire, its employees, contractors and agents, shall have exclusive use of the Transmission Assets, Documented Property Rights and Intellectual Property Rights for the purpose of carrying out the Concession Agreement.
- d) The Concessionaire shall during the concession period assume all of the responsibilities as if it's an owner of the Transmission Assets, other than excluded assets, Documented Property Rights and Intellectual Property Rights including the obligation to license fees, taxes, renewal fees and other charges payable that fall due for payment during the concession period.
- e) So long as no Concessionaire default is continuing, TRANSCO shall make available to the Concessionaire the amounts of budgeted external funding under the Funding Agreements which have not been drawn as at Commencement Date as specified in the schedule of Projects Under Construction (PUC) towards the cost of completing PUC in accordance with the Construction Management Agreement (CMA) (see Note 8).
- f) The Concessionaire will carry out the Concession Agreement as an independent contractor for its own account.

- g) All contracts to be entered into by the Concessionaire relating to the operation of the Concession Agreement during its term and which: (a) are for a term of 12 months or more; and, (b) involving the payment of money or the receipt of money by the Concessionaire in excess of US\$1.0 million shall only be entered into by the Concessionaire if it includes an expressed provision of assignability, at TRANSCO's option, to TRANSCO or its nominee upon the expiration of the Concession Period or earlier termination of the Agreement.
- h) As security for prompt and complete performance of its obligations under the Agreement, the Concessionaire shall deliver to PSALM on Commencement Date a Performance Security in the form of Irrevocable Standby Letter of Credit. Each Performance Security, equal to 2% of the Concession Fee, shall be for a term of not less than twelve months. The Concessionaire shall deliver a replacement Performance Security by the Replacement Deadline (the date that is not less than five business days prior to the expiration date of the then effective Performance Security). Failure to deliver a replacement Performance Security by Replacement Deadline represents a Replacement Failure Draw Event.
- i) Subject to the provisions related to the Replacement Failure Draw Event, PSALM and TRANSCO shall be entitled to draw on and forfeit the entire amount of the Performance Security upon the occurrence of a Performance Security Drawing Event. Performance Security Drawing Event shall mean any one or combination of: (i) a Concessionaire Default, (ii) a Replacement Failure Draw Event, or (iii) any violation by the Concessionaire of any of the terms and conditions of the Agreement (including non-payment of Concession fee or any portion thereof) or any of the other Transaction Documents.
- j) From the Commencement Date, the Concessionaire shall be entitled to exercise all of TRANSCO's rights and shall discharge all of TRANSCO's liabilities (except for excluded liabilities) under all existing contracts relating to the operation of its regulated transmission business, including contracts for related businesses and any rights under any security deposits, letters of credit and other forms of credit support provided by TRANSCO's counterparties to such contracts (the Transferred Contracts).
- k) On the Commencement Date, TRANSCO shall transfer title to the Transferable Assets to the Concessionaire by executing a Deed of Transfer. TRANSCO and the Concessionaire shall execute additional deeds of transfer in respect of any subsequently discovered TRANSCO-owned tangible moving property, the title of which has not been transferred to the Concessionaire, under the Deed of Transfer.
- l) From Commencement Date, the Concessionaire shall manage the construction and completion of all PUC that have not been commissioned and placed in service on behalf of TRANSCO in accordance with the CMA (see Note 8).
- m) On the Commencement Date, and except for Excluded Receivables, the Concessionaire shall acquire all of TRANSCO's cash, receivables and the benefit of prepayments made by TRANSCO and shall assume the liability to pay and discharge all of TRANSCO's current liabilities except for Excluded Liabilities. TRANSCO's estimated working capital position and the Concession Fee shall be adjusted to account for any difference between TRANSCO's actual working capital position on the Commencement Date and such estimate.

- n) TRANSCO shall retain title to: (i) all of the Transmission Assets, Intellectual Property Rights, (ii) all assets comprising PUC or New Projects, and (iii) all easements, rights of way or other real estate interests, including Documented Property Rights acquired by the Concessionaire.
- o) From the Commencement Date, the Concessionaire agrees to design, develop, finance, construct and complete all New Projects that are necessary for the fulfillment of the Concessionaire's responsibilities as the Grid Owner and System Operator at its own cost and expense after taking account of the Transmission Development Plan (see Note 8).
- p) TRANSCO shall be liable to obligations in relation to loans existing prior to the Commencement Date contracted by NPC relating to the Transmission Assets, except those assumed by the Concessionaire under the Loan Covenants Agreement.
- q) TRANSCO shall temporarily assign to the Concessionaire its workforce to ensure a smooth transition in the operation of the Transmission Grid by the Concessionaire under the "Interim Assignment Agreement."
- r) In consideration for the grant of the Concession Agreement, the Concessionaire shall pay PSALM US\$3.95 billion. The Concessionaire shall pay 25% (or at the Concessionaire's option, a higher percentage) of the Concession Fee to PSALM in US dollar on the Commencement Date (Commencement Fee). The balance of the Concession Fee shall be converted to Philippine peso at a fixed exchange rate equal to P42.75 for every US dollar and paid to PSALM with interest in accordance with the Schedule of Deferred Payments. The Concession Fee is subject to adjustments in accordance with Schedule 6 to the Agreement, Adjustments to Concession Fee (see Notes 5, 8 and 14).
- s) The concession period shall terminate on the termination date and the Concessionaire's business shall thereupon be taken over by PSALM or its nominee as a going concern in accordance with the Agreement.
- t) In consideration for the Concessionaire's construction, installation, financing, management, improvement, operation, etc. of the Transmission Assets in the Philippines, TRANSCO shall pay the Concessionaire the Recovery Payment as determined by independent appraisers.

The Recovery Payment shall be paid, together with interest at the applicable rate from the termination date until transfer closing date. The applicable rate shall be:

- (a) In case of a termination by reason of a government default, a rate reflecting a fair and reasonable weighted average cost of capital as at the termination date,
- (b) In case of a termination by reason of a concessionaire default, a rate reflecting a fair and reasonable risk-free rate as at the termination date,
- (c) In the event of termination of the Agreement by reason of a no fault event, a rate reflecting a fair and reasonable cost of debt as at the termination date determined, and
- (d) In the event of expiration of the Concession Period, a rate reflecting a fair and reasonable cost of debt as at the expiration date determined.

PSALM shall remit the Recovery Payment, together with interest from the termination date until the transfer closing date at the applicable rate, by wire transfer to an account designated by the Concessionaire unless within that period PSALM notifies the Concessionaire in writing that it has elected to pay the Recovery Payment over seven (7) years.

The Recovery Payment will only be determinable at termination date by a mutually appointed independent appraiser.

Standby Letter of Credit

In compliance with the terms and conditions of the Concession Agreement, the NGCP obtained an Irrevocable Standby Letter of Credit (SBLC) with The Mizuho Bank, Ltd. amounting to US\$79.00 million in favor of PSALM which is effective October 3, 2023 until October 3, 2024.

Transferred Contracts

Included in the transferred contracts from TRANSCO are existing contracts before the bidding date and subsequent contracts entered into by TRANSCO after the bidding date such as, loan agreements amounting to P5.00 million and above, insurance contracts, software licenses of information technology and intellectual properties, radio station licenses, projects under construction, sub-transmission assets sale, procurement contracts, transmission service agreements, undelivered purchase orders, requirements for award, spatial data infrastructure projects and other agreements with transmission customers.

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## **5. Concession Fee**

As discussed in Note 4 to the consolidated financial statements, the Group shall pay PSALM US\$3.95 billion (P172.99 billion) as Concession Fee. Such fee is recognized as part of "Intangible asset" account in the consolidated statements of financial position as at December 31, 2023 and 2022 (see Note 8).

The Group paid PSALM the Commencement Fee amounting to US\$987.50 million (P46.34 billion), representing 25% of the Concession Fee, in January 2009 through funds received by NGCP from its Investors.

The balance of the Concession Fee of US\$2.962 billion was converted to peso liability at a fixed exchange rate of P42.75 for every US dollar at initial recognition, payable in forty (40) semi-annual installments (Deferred Payments). Interest is payable on the aggregate outstanding amount of the Deferred Payments in arrears on each semi-annual payment date (see Note 15).

Subsequently, the Concession Fee shall be adjusted as follows:

- a. The Concession Fee shall be adjusted for the difference between the audited Initial Working Capital (IWC) and the estimated IWC as at Commencement Date. The Concession Fee shall be: (i) increased if the audited IWC at Commencement Date is greater than the amount of estimated IWC; or (ii) decreased if the audited IWC at Commencement Date is less than the amount of estimated IWC (see Note 4).
- b. The Concession Fee shall be reduced by an amount equal to: (i) any reduction in the regulatory asset value resulting from the disposal of sub-transmission assets; and (ii) any difference between the aggregate regulatory asset value of transmission connection projects and sub-transmission projects included in the PUC approved by the ERC on their completion and the aggregate value of such projects if the aggregate ERC-approved value is lower than their aggregate estimated value.



- c. A recalculation of the amount of funding from sources other than the Funding Agreements and source of TRANSCO's actual expenditure on PUC before the Commencement Date and the estimated cost of capital expenditure to complete each PUC after the Commencement Date. If the remaining capital expenditure required to complete all PUC to be funded from sources other than Funding Agreements is higher than the expenditure to be funded from such sources after the Commencement Date, the Concession Fee shall be reduced by the difference between those two amounts. On the other hand, if the remaining capital expenditure required to complete all PUC to be funded from sources other than Funding Agreements is lower than the expenditure to be funded from such sources after the Commencement Date, the Concession Fee shall be increased by the difference between those two amounts (see Note 4).

Whenever it becomes necessary for the Concession Fee to be adjusted, the Concessionaire shall furnish PSALM with its preliminary calculations of the necessary adjustments within thirty days, together with a detailed explanation of its calculation.

#### Adjustments to Concession Fee

As at December 31, 2010, the audits of the PUC and IWC have been fully completed and agreed to by the parties. The estimated reduction in the regulatory asset value resulting from the disposals of the sub-transmission assets had also been determined and deemed insignificant as at December 31, 2010 while the difference between the aggregate regulatory asset value of transmission connection projects and sub-transmission projects included in the PUC approved by the ERC on their completion and the aggregate value of such projects set out in Schedule 2 to the Concession Agreement will be determined upon completion of the projects. Accordingly, the Group recognized the resulting net determinable adjustment to the Concession Fee amounting to P8.85 billion as at December 31, 2010. Subsequently, the Group determined and adjusted the computed escrow fund utilization amounting to P3.01 billion as at December 31, 2011 (see Note 8) as confirmed by TRANSCO in a letter dated August 15, 2011. On June 14, 2013, NGCP and PSALM had agreed the dollar portion of the PUC amount of P240.05 million resulting to additional adjustments to Concession Fee.

In accordance with Section 4.02 of the Concession Agreement, the concession fee shall be subject to adjustment based on Schedule 6 (Adjustments to Concession Fee) in light of the audit to be conducted pursuant to Subsection 4.02 (f) (Projects Under Construction). PSALM, TRANSCO and NGCP appointed Sinclair, Knight, Merz (SKM) as the independent appraiser to conduct the audit of PUC for purposes of determining the adjustment to concession fee. SKM made its independent determination of the estimated cost to complete each PUC and the final report was submitted on July 15, 2009, and was duly accepted and approved by PSALM, TRANSCO and NGCP. NGCP maintains that the proposed adjustment to concession fee be based on the SKM audit. However, there was differing interpretation proposed by PSALM which is currently being resolved.

On July 15, 2013, the Concession Fee was adjusted for P1.57 billion representing overpayment from January 15, 2009 to January 15, 2013, which was netted-out from its scheduled Concession Fee payment to PSALM. Further, PSALM refunded NGCP the amounts of US\$29.26 million representing overpayment on the 25% upfront concession fee payment.

The Concession Fee Adjustment further includes P1.77 billion adjustment to the 75% semi-annual deferred payment amortization for the 10-year period January 15, 2014 to January 15, 2024. As of December 31, 2023, a total amount of P4.42 billion is due for payment on July 15, 2024.

On December 31, 2016, the Concession Fee was adjusted for P557.34 million representing interest receivable and accounts receivable - others which were turned-over by TRANSCO and subsequently determined to be uncollectible.

The Group has reserved its right to further adjustment of the Concession Fee and full refund of any and all overpayments of Concession Fees following the finalization of Adjustments to Concession Fee.

The Adjustments to the Concession Fee are computed based on the formula as set out in Schedule 6 of the Concession Agreement ("Schedule 6, Adjustments to Concession Fee"). The Commencement Fee is increased or decreased by the difference between the Concession Fees prior to the adjustments and the Concession Fee after the adjustments in accordance with Schedule 6, and such difference is multiplied by the ratio of the Commencement Fee to the Concession Fee expressed as a percentage ("M"). In addition, Deferred Payment is increased or decreased by the difference between the Concession Fees prior to the adjustments and the Concession Fee after the adjustments in accordance with Schedule 6, and such difference is multiplied by the percentage difference of 100% - M.

#### Concession Fee Payable

This account consists of the balance of the Concession Fee amounting to US\$2.962 billion converted to peso liability at a fixed exchange rate of P42.75 for every US dollar at initial recognition and is payable in 40 semi-annual installments (Deferred Payments).

Interest rate applicable to the Deferred Payments has been fixed until the last semi-annual payment date of the Second Regulatory Period (January 2006 to December 2010) to equal to the Philippine Dealing System (PDS) Treasury Fixing or PDST-F or PDST-F 10 year benchmark rate as published by the Philippine Dealing and Exchange (PDEX) Corporation on the Market page of the PDEX System (the 10 Year PDST-F Rate) at approximately 11:16 am on a date designated by PSALM falling approximately one month before the Bid Date plus 230 basis points (2.3%). After the end of the Second Regulatory Period, the interest rate shall be adjusted for the next Regulatory Period and every Regulatory Period, thereafter, and such adjusted interest rate shall be applicable for each Deferred Payment falling due during the relevant Regulatory Period. The adjusted interest rate shall be equal to the 10 Year PDST-F Rate at approximately 11:16 am two business days before the semi-annual payment date on which an adjustment is to take effect plus 230 basis points (2.3%).

For the Fourth Regulatory Period, PSALM Board of Directors approved, on June 16, 2015, through PSALM Board Resolution No. 2015-0616-08 to substitute the interest benchmark rate under the Concession Agreement (CA) from 10-Year PDST-F to 10-Year PDST-R1. This adjusted interest rate was applied for each Deferred Payment falling due during the relevant Regulatory Period. Thus, for the Fourth Regulatory Period starting January 1, 2016 to December 31, 2020, interest rate applied was 6.5391%.

With the retirement of the PDST reference rates effective October 29, 2018, PSALM in its letter dated August 14, 2019, hereby confirms that the 10-year PHP BVAL interest benchmark rate for Philippine Government issued debt securities shall be the interest rate for the next Regulatory Period of the Deferred Payments under the Concession Agreement (CA). The 10-year PHP BVAL as at January 13, 2021, was 3.013% plus 2.30% margin, the applicable interest rate for the Fifth Regulatory Period covering January 1, 2021 to December 31, 2025 shall be 5.313%.

Interest expense on deferred payments in 2023 and 2022 recognized in profit or loss amounted to P2.89 billion (see Note 14).

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**6. Business Combination under no Common Control**

As discussed in Note 1, on May 28, 2021, SGDPI entered into a share swap transaction in exchange for the shares of stocks of OTHI and P21. The business combination involving OTHI and P21 including NGCP (collectively referred to as the "acquired subsidiaries") and SGDPI is considered to be a business combination of entities under common control as two major shareholders, through contractual agreement and with majority representation in the Board of Directors, jointly controls SGDPI and the acquired subsidiaries before and after the acquisition.

The Share Swap Transaction which is considered to be a business combination of entities under common control was accounted for retrospectively using the pooling of interests method with the consolidated financial statements being restated as if the entities had always been combined for the periods that the entities were under common control.

The Group recognized the assets acquired and liabilities assumed at their carrying amounts. The difference between the consideration paid or transferred and the net assets acquired is recognized under "Equity adjustment from common control transactions" account in the consolidated statements of changes in equity.

## 7. Non-controlling Interests

The details of the Group's material non-controlling interests as a result of the consolidation of OTHI, P21 and NGCP are as follows:

	December 31, 2023		December 31, 2022	
	Consolidated OTHI	Consolidated P21	Consolidated OTHI	Consolidated P21
Percentage of non-controlling interests	33%	33%	33%	33%
Carrying amount of non-controlling interests	(P13,332,711,758)	(P17,025,911,823)	P84,813,290,512	(P16,668,404,861)
Net income attributable to non-controlling interests	(P526,233)	(P1,397,362)	12,724,681,411	(P205,347,144)
Other comprehensive income attributable to non-controlling interests	P -	P -	P -	P -
Dividends paid to non-controlling interests	P356,109,600	P356,109,600	P1,452,160,000	P1,095,771,600
				P4,467,360,000

The following are the financial information of OTHI, P21 and NGCP:

	December 31, 2023		December 31, 2022	
	Consolidated OTHI	Consolidated P21	Consolidated OTHI	Consolidated P21
Current assets	P34,182,478	P21,938,247	P49,440,661,356	P51,239,683,126
Noncurrent assets	49,070,382,654	38,820,148,508	405,856,855,265	353,917,048,435
Current liabilities	3,998,040	847,273,566	85,580,248,970	75,781,028,845
Noncurrent liabilities	-	-	224,283,975,891	203,057,376,007
Net assets	P49,100,567,092	P37,994,813,189	P145,433,291,760	P126,318,326,709
Revenues/Income	P6,381,449,623	P6,380,799,296	P52,999,780,707	P9,451,797,582
Net income	P6,355,024,607	P6,352,384,823	P23,434,035,748	P9,423,765,432
Other comprehensive income (loss)	(86,876,569)	(86,876,569)	(319,070,697)	65,149,506
Total comprehensive income	P6,268,148,038	P6,265,508,254	P23,114,965,051	P9,488,914,938
Cash flows provided by (used in) operating activities	(P52,402,985)	(P29,479,552)	P38,995,316,763	(P28,495,663)
Cash flows provided by (used in) investing activities	1,088,670,130	1,089,120,000	(54,663,051,663)	3,350,826,901
Cash flows provided by (used in) financing activities	(1,079,120,000)	(P1,079,120,000)	22,200,686,207	(3,320,635,000)
Effect of exchange rate changes on cash and cash equivalents	(7,868)	(10,990)	(898,108)	106,203
Net increase (decrease) in cash and cash equivalents	(P42,860,703)	(P19,490,542)	P6,532,053,199	P1,802,441
				(P3,938,219,130)

## 8. Intangible Asset - net

This account consists of:

	Note	2023	2022
Cost:			
Concession fee	2, 5	P160,296,289,265	P160,296,289,265
Cost of completed projects	2	141,257,236,694	96,611,921,945
Computer software	3	487,983,237	487,983,237
		302,041,509,196	257,396,194,447
Less accumulated amortization		116,688,774,461	106,410,554,475
		185,352,734,735	150,985,639,972
Contract assets		192,658,330,354	180,440,007,273
		P378,011,065,089	P331,425,647,245

### Concession Fee

This represents the right to operate the entire regulated transmission business of TRANSCO during the concession period. The Concession Fee is subsequently adjusted by the Adjustments to Concession Fee disclosed in Note 5 pursuant to Schedule 6 of the Concession Agreement.

Amortization expense recognized in profit or loss amounted to P6.38 billion in 2023 and 2022.

### Costs of Completed Projects

This pertains to the intangible asset resulting from completed transmission projects from Commencement Date to report date which will be transferred to TRANSCO at the end of the concession period in accordance with the Concession Agreement.

Amortization expense recognized in profit or loss amounted to P3.88 billion and P2.55 billion in 2023 and 2022, respectively.

### Contract Assets

This pertains to the intangible asset related to costs of assets under construction resulting from the construction of transmission assets as part of the Concession Agreement and will be transferred to TRANSCO at the end of the concession period.

### Computer Software and License

This pertains to the costs incurred for the Enterprise Resource Planning (ERP) Project, Enterprise Document Management System (EDMS), Integrated Human Resource Application (IHRA), Integrated Meter Data Validation System (IMDVS), Medical Information System (MEDYSIS) and Visitor's Management System (VMS) amounting to P487.98 million as at December 31, 2023 and 2022.

Amortization expense recognized in profit or loss amounted to P20.82 million and P42.99 million in 2023 and 2022, respectively.

The movements and balances of the accounts are as follows:

	Per Concession Right				Computer Software	Total
	Concession Fee	Completed Projects/Others	Contract Assets	Total		
<b>Cost</b>						
January 1, 2022	P160,296,289,265	P84,932,962,401	P151,197,555,998	396,426,807,664	P480,126,986	P396,906,934,650
Additions/adjustments	-	11,678,959,544	29,242,451,275	40,921,410,819	7,856,251	40,929,267,070
December 31, 2022	160,296,289,265	96,611,921,945	180,440,007,273	437,348,218,483	487,983,237	437,836,201,720
Additions/adjustments	-	44,645,314,749	12,218,323,081	56,863,637,830	-	56,863,637,830
<b>December 31, 2023</b>	<b>160,296,289,265</b>	<b>141,257,236,694</b>	<b>192,658,330,354</b>	<b>494,211,856,313</b>	<b>487,983,237</b>	<b>494,699,839,550</b>
<b>Accumulated Amortization</b>						
January 1, 2022	83,788,197,726	13,258,116,413	-	97,046,314,139	396,879,102	97,443,193,241
Additions/adjustments	6,375,674,295	2,548,693,748	-	8,924,368,043	42,993,191	8,967,361,234
December 31, 2022	90,163,872,021	15,806,810,161	-	105,970,682,182	439,872,293	106,410,554,475
Additions/adjustments	6,375,674,295	3,881,721,504	-	10,257,395,799	20,824,187	10,278,219,986
<b>December 31, 2023</b>	<b>96,539,546,316</b>	<b>19,688,531,665</b>	<b>-</b>	<b>116,228,077,981</b>	<b>460,696,480</b>	<b>116,688,774,461</b>
<b>Net Carrying Amount</b>						
December 31, 2022	P70,132,417,244	P80,805,111,784	P180,440,007,273	P331,377,536,301	P48,110,944	P331,425,647,245
<b>December 31, 2023</b>	<b>P63,756,742,949</b>	<b>P121,568,705,029</b>	<b>P192,658,330,354</b>	<b>P377,983,778,332</b>	<b>P27,286,757</b>	<b>P378,011,065,089</b>

## 9. Goodwill

Goodwill amounting to P10.47 billion as at December 31, 2023 and 2022 arise from the acquisition of OTHI of 100% equity interest in MOGRC and acquisition of MOGRC and CHPC of 30% interest each in NGCP.

The recoverable amount of goodwill has been determined based on valuation using cash flow projections (value in use) covering a five-year period based on long range plans approved by management. The values assigned to the key assumptions represent management's assessment of future trends in the relevant industries and were based on historical data from both external and internal sources. Cash flows beyond the five-year period are extrapolated using a constant growth rate determined to arrive at its terminal value. The growth rate used is 14.1% and 5.2% in 2023 and 2022, respectively, are based on Group's expectations of market developments and past historical performance. The discount rate applied to after tax cash flow projections is 11.98% and 9.60% in 2023 and 2022, respectively. The discount rate also imputes the risk of the cash-generating units compared to the respective risk of the overall market and equity risk premium. The recoverable amount of goodwill has been categorized as Level 3 in the fair value hierarchy based on the inputs used in the valuation technique (see Note 3).

No impairment loss was recognized for goodwill for the year ended December 31, 2023 and 2022.

Management believes that any reasonably possible change in the key assumptions on which the recoverable amount is based would not cause their carrying amounts to exceed their recoverable amounts.

The calculations of value in use are most sensitive to discount rate. The risk-adjusted weighted average cost of capital is used as the discount rate, which reflects management's estimate of the risk specific to each unit. This is the benchmark used by management to assess operating performance and to evaluate future investment proposals.

## 10. Property and Equipment - net

The movements of this account are as follows:

	Structures and Improvements	Transportation Equipment	Machinery and Equipment	Office Furniture and Fixtures	Total
<b>Cost</b>					
January 1, 2022	P221,286,845	P2,916,701,019	P5,084,083,519	P4,103,103,634	P12,335,174,817
Additions during the year	311,689,147	622,588,830	474,929,820	230,767,958	1,639,975,755
December 31, 2022	532,975,792	3,539,289,849	5,569,013,339	4,333,871,592	13,975,150,572
Additions during the year	24,249,360	327,780,743	133,246,068	233,292,574	718,568,745
<b>December 31, 2023</b>	<b>557,225,152</b>	<b>3,867,070,592</b>	<b>5,702,259,407</b>	<b>4,567,164,166</b>	<b>14,693,719,317</b>
<b>Accumulated Depreciation</b>					
January 1, 2022	87,263,611	2,122,426,355	3,173,065,279	2,821,814,151	8,204,589,396
Depreciation during the year	102,648,510	170,587,042	211,681,955	220,813,505	705,731,012
December 31, 2022	189,912,121	2,293,013,397	3,384,767,234	3,042,627,656	8,910,320,408
Depreciation during the year	112,306,552	235,057,109	226,320,646	216,842,768	790,527,075
<b>December 31, 2023</b>	<b>302,218,673</b>	<b>2,528,070,506</b>	<b>3,611,087,880</b>	<b>3,259,470,424</b>	<b>9,700,847,483</b>
<b>Net Carrying Amount</b>					
December 31, 2022	P343,063,671	P1,246,276,452	P2,184,246,105	P1,291,243,936	P5,064,830,164
<b>December 31, 2023</b>	<b>P255,006,479</b>	<b>P1,339,000,086</b>	<b>P2,091,171,527</b>	<b>P1,307,893,742</b>	<b>P4,992,871,834</b>

	Structures and Improvements	Transportation Equipment	Machinery and Equipment	Office Furniture and Fixtures	Total
<b>Cost</b>					
January 1, 2021	P209,702,620	P2,711,420,022	P4,681,249,509	P3,964,694,243	P11,567,066,394
Additions during the year	11,584,025	205,280,997	412,834,010	138,409,391	768,108,423
December 31, 2021	221,286,645	2,916,701,019	5,094,083,519	4,103,103,634	12,335,174,817
Additions during the year	311,689,147	622,588,830	474,929,820	230,767,958	1,639,975,755
December 31, 2022	532,975,792	3,539,289,849	5,569,013,339	4,333,871,592	13,975,150,572
<b>Accumulated Depreciation</b>					
January 1, 2021	66,994,761	1,946,531,201	2,982,867,745	2,595,776,688	7,592,170,395
Depreciation during the year	20,268,850	175,895,154	190,217,534	226,037,463	612,419,001
December 31, 2021	87,263,611	2,122,426,355	3,173,085,279	2,821,814,151	8,204,589,396
Depreciation during the year	102,648,510	170,587,042	211,681,955	220,813,505	705,731,012
December 31, 2022	189,912,121	2,293,013,397	3,384,767,234	3,042,627,656	8,910,320,408
<b>Net Carrying Amount</b>					
December 31, 2021	P134,023,034	P794,274,664	P1,920,998,240	P1,281,289,483	P4,130,585,421
December 31, 2022	P343,063,671	P1,246,276,452	P2,184,246,105	P1,291,243,936	P5,064,830,164

Depreciation expense recognized in consolidated statements of income amounted to P790.53 million and P705.73 million in 2023 and 2022, respectively.

## 11. Cash and Cash Equivalents

This account consists of:

	Note	2023	2022
Cash on hand		<b>P23,484,059</b>	P14,985,173
Cash in banks	24	<b>3,788,997,572</b>	3,673,009,184
Short-term placements	24	<b>6,100,434,467</b>	1,161,934,720
		<b>P9,912,916,098</b>	P4,849,929,077

Cash in banks generally earn interest at rates based on daily bank deposit rates. Short-term placements have average tenors of three (3) months or less and earn interests ranging from 1.00% - 6.15% and 0.750% - 4.750% in 2023 and 2022, respectively. Interest income earned amounted to P118.89 million and P139.66 million in 2023 and 2022, respectively.

## 12. Receivables

This account consists of:

### A. Current Receivables

	Note	2023	2022
Power receivables	24	<b>P4,421,503,592</b>	P4,547,634,467
Due from customers	24	<b>3,008,838,471</b>	3,749,632,681
Accrued power receivables	24	<b>732,532,033</b>	6,430,656,406
Output VAT receivable		<b>1,828,431,086</b>	1,701,149,641
Due from officers and employees and other receivables	24	<b>138,663,332</b>	148,302,680
Restructured power receivables	24	<b>73,729,976</b>	53,383,239
Interest receivable	24	<b>3,926,222</b>	555,138
		<b>P10,207,624,712</b>	P16,631,314,252



## B. Noncurrent Receivables

	Note	2023	2022
Restructured power receivables		<b>P1,409,399,028</b>	P1,437,336,225
Accrued power receivables		<b>18,507,913,333</b>	12,809,832,000
Power receivables		<b>120,541,875</b>	120,043,847
Due from customers		<b>439,437,957</b>	444,233,622
Other noncurrent account receivable		<b>1,412,909,900</b>	1,007,927,847
	24	<b>21,890,202,093</b>	15,819,373,541
Less allowance for impairment losses		<b>(2,071,468,659)</b>	(2,006,798,659)
		<b>P19,818,733,434</b>	P13,812,574,882

Details of movements of allowance for impairment losses are as follows:

	2023	2022
Balance at beginning of year	<b>P2,006,798,659</b>	P1,942,128,659
Provision for impairment losses on receivables during the year	<b>64,670,000</b>	64,670,000
Balance at end of year	<b>P2,071,468,659</b>	P2,006,798,659

Noncurrent - receivables consist of amount due from power customers relating to transmission and sub-transmission services, ancillary services and the claim from DPWH amounting to P1.01 billion for the damaged Amlan-Samboan submarine cable which are to be collected beyond 1 year. These receivables pertain mainly to the iMAR2020 approved by ERC in an order dated March 23, 2022, amounting to P51.471 million effective January 1, 2020 until a new transmission revenue has been determined. Starting May 2022 billing period, NGCP already implemented the billing based on the P51.471 million iMAR. However, NGCP is yet to receive ERC's resolution on the proposed manner of recovery of the unbilled iMAR2020 for the years 2020, 2021 and four (4) months of 2022 resulting to the accrual of the unbilled incremental iMAR2020 for the 2020, 2021 and the four (4) months of 2022 as of December 31, 2022. As of December 31, 2023, total unbilled non-current power receivables amounted to P17.62 billion, of which P7.38 billion pertains to incremental iMAR of 2020, P7.68 billion for iMAR of 2021, P2.56 billion for the four (4) months of 2022 and P883.06 million pertains to Performance Incentive Scheme (PIS).

Due from customers pertains to receivables for ancillary service charges (ASC), FIT-ALL and universal charges billed to the customers on behalf of the ancillary service providers, TRANSCO and PSALM. These charges will ultimately be remitted to ancillary providers, TRANSCO and PSALM. The noncurrent portion pertains to customers with dispute resolution cases pending with ERC.

Accrued interest receivable from short-term placements amounted to P3.61 million and P0.18 million as at December 31, 2023 and 2022, respectively.

Restructured power receivables represent that portion of restructured power customers' accounts subject to repayment by pre-determined installments.

Output VAT Receivables is the value added tax due from sales of goods and services both to customers and to other businesses.

Accrued power receivables refers to the estimated amount of revenues earned but not yet billed to the customers at year-end. This contract asset is generally reversed upon billing and recognition of power receivables.

### 13. Prepaid Expenses and Other Assets

#### A. Prepaid Expenses and Other Current Assets

This account consists of:

	2023	2022
Advance payment to suppliers and contractors	P15,951,538,965	P18,158,867,110
Court and other deposits	6,237,280,621	7,658,813,934
Materials, supplies and spare parts - net	3,666,347,815	3,689,264,986
Input VAT	3,010,526,021	1,239,341,361
Other deposits	526,240,591	486,008,889
Materials, supplies and spare parts in transit	107,830,271	188,294,420
Prepaid expenses	194,074,053	172,889,557
Other supplies	21,862,305	17,210,727
Guaranty deposit	9,072,835	9,072,835
Calamity loan fund	60,261	143,594
	<b>P29,724,833,738</b>	<b>P31,619,907,413</b>

Advance payment to suppliers and contractors includes the balance advanced by the Group to suppliers and contractors in relation with its contracts for the construction of the project or for services rendered.

Court and other deposits include various amounts deposited with the provincial, municipal or city courts and other entities as guaranty for the fulfillment of obligation and for other purposes. These are mostly provisional deposits relative to right of way and/or lot acquisition cases (Note 25).

Materials, supplies and spare parts before write-down to net realizable value amounted to P4.01 billion and P4.03 billion as at December 31, 2023 and 2022, respectively, which resulted to an accumulated write-down amount of P346.27 million as at December 31, 2023 and 2022. Materials, supplies and spare parts and other supplies charged in the consolidated statements of income amounted to P235.12 million and P344.69 million in 2023 and 2022, respectively.

Materials, supplies and spare parts are items that will be used in the operations and maintenance of utility plants, substation and transmission lines.

Input VAT is the value-added tax added to the price on purchases of goods and services to suppliers/contractors liable to VAT. It is deductible to the amount of Output VAT payable to the Bureau of Internal Revenue (BIR).

Other deposits consist of amounts advanced by the Group such as refundable and security deposits.

Materials, supplies and spare parts in transit pertain to items that were already purchased by the Group but not yet received.

Prepaid expenses refer to advance payments made for rent, insurance, communication license and all expenditures related to preliminary surveys, studies, investigations and other related undertakings to determine the feasibility of a project for development by the Group.

Guaranty deposits include the amount of letters of credit (LC) opened in favor of suppliers corresponding to the marginal guaranty deposits and other charges applicable to the LC. These also include other transactions requiring deposit to guarantee for the fulfillment of an obligation.

Calamity loan fund pertains to the cash advances provided to the employees for the damages suffered by them due to the typhoon calamities.

#### B. Other Noncurrent Assets

This account consists of:

	2023	2022
Deferred input VAT	<b>P56,279,256</b>	P101,098,812
Project prepayment - noncurrent	<b>2,979,561,262</b>	3,514,898,344
	<b>P3,035,840,518</b>	P3,615,997,156

Deferred Input VAT refers to the balance of input VAT of acquired capital goods with cost of P1.00 million and above and amortized for five (5) years.

Project prepayment represents cash advances to contractors in connection with the contract for the construction of project or for services rendered which will not be recouped within one year from the date of payment. These are expenses to be converted into cash once contractor did not fulfill obligation.

## 14. **Loans Payable**

### Outstanding Balance and Maturities

Outstanding balance of loans payable is presented below:

	Note	2023	2022
<b>Loan Facilities (Net of Debt Issuance Costs)</b>			
Fixed-rate peso corporate notes		<b>P20,781,381,427</b>	P33,834,167,482
Peso denominated term loan		<b>172,726,748,310</b>	133,257,333,132
	24	<b>193,508,129,737</b>	167,091,500,614
Less current portion		<b>23,738,528,528</b>	22,619,438,229
		<b>P169,769,601,209</b>	P144,472,062,385

Movements in debt issuance costs are as follows:

	2023	2022
Balance at beginning of year	<b>P884,499,386</b>	P873,929,385
Debt issuance costs during the year	<b>371,774,193</b>	233,064,516
Amortization during the year	<b>(231,573,316)</b>	(222,494,515)
Balance at end of year	<b>P1,024,700,263</b>	P884,499,386

#### Repayment Schedule

As at December 31, 2023, the annual maturities of loans payable are as follows:

Year	Gross Amount	Debt Issuance Costs	Net
2024	P23,935,340,000	P196,811,472	P23,738,528,528
2025	21,523,340,000	168,251,205	21,355,088,795
2026	23,523,340,000	150,329,639	23,373,010,361
2027	21,163,810,000	133,523,178	21,030,286,822
2028	22,178,000,000	109,038,515	22,068,961,485
More than 5 years	82,209,000,000	266,746,254	81,942,253,746
	<b>P194,532,830,000</b>	<b>P1,024,700,263</b>	<b>P193,508,129,737</b>

As at December 31, 2022, the annual maturities of loans payable are as follows:

Year	Gross Amount	Debt Issuance Costs	Net
2023	P22,810,170,000	P203,476,540	P22,606,693,460
2024	22,402,340,000	160,050,764	22,242,289,236
2025	19,680,340,000	129,573,285	19,550,766,715
2026	20,554,340,000	109,820,984	20,444,519,016
2027	17,062,810,000	90,873,343	16,971,936,657
More than 5 years	65,466,000,000	190,704,470	65,275,295,530
	<b>P167,976,000,000</b>	<b>P884,499,386</b>	<b>P167,091,500,614</b>

#### Details, Description and Terms of the Loans

Following are the details, description and terms of the loans:

#### *Financing of Capital Expenditures*

- a. The Group, through NGCP entered into a P4.6 billion Peso Bilateral Unsecured Term Loan drawn on January 9, 2023; P3.3 billion from P6.0 billion Peso Bilateral Unsecured Term Loan drawn on January 16, 2023; P5.0 billion drawn on March 7, 2023, P8.0 billion drawn on June 6, 2023, P7.0 billion drawn on July 14, 2023, P2.7 billion drawn on September 29, 2023 and P2.3 billion drawn on November 16, 2023 from P25.0 billion Peso Bilateral Unsecured Term Loan; P5.0 billion Peso Bilateral Unsecured Term Loan drawn on March 31, 2023; P5.0 billion Peso Bilateral Unsecured Term Loan drawn on July 14, 2023; P1.5 billion Peso Bilateral Unsecured Term Loan drawn on September 14, 2023 and P5.0 billion Peso Bilateral Unsecured Term Loan drawn on 13 December 2023, intended for purposes of financing New Projects or for any other purpose related to carrying out the Concession including but not limited to financing capital expenditures. Terms of these loans include Ten-year Peso Bilateral Unsecured Term Loan for P3.3 billion from P6.0 billion, for P5.0 billion, P8.0 billion, P7.0 billion, P2.7 billion and P2.3 billion from P25.0 billion, for P5.0 billion and for another P5.0 billion; Seven-year Peso Bilateral Unsecured Term Loan for P4.6 billion and for P1.5 billion; and Five-year Peso Bilateral Unsecured Term Loan for P5.0- billion. For the P4.6 billion, the applicable interest rate for the Loan shall be (i) the Interest Rate for the period beginning on the Drawdown Date until the third anniversary of the Drawdown Date and (ii) the Interest Rate, for the period beginning on the day immediately following the third anniversary of the Drawdown Date until the Maturity Date. For the P3.3 billion from the P6.0 billion, the applicable interest rate for the Loan shall be (i) the Interest Rate for the period beginning on the relevant Drawdown Date until the fifth anniversary of the initial Drawdown Date and (ii) the Reset Interest Rate, for the period beginning on the day immediately following the fifth anniversary of the initial Drawdown date until Maturity Date. For the P5.0 billion, P8.0 billion, P7.0 billion, P2.7 billion and P2.3 billion from the P25.0 billion, the applicable interest rate for the Loan shall be: (i) the Initial Interest Rate for the period beginning on the relevant Drawdown Date until the Reset Date and (ii) the Reset Interest Rate, for the period beginning on the day immediately following the Reset Date until the Maturity Date. For the P5.0 billion, the applicable interest rate for the Loan shall be (i) the Interest Rate for the period beginning on the relevant Drawdown Date until the Reset Date and (ii) the Reset Interest Rate, for the period beginning on the day immediately following the Reset Date until the Maturity Date. For the P5.0 billion, the applicable interest rate for the Loan shall be the Interest Rate for the period beginning on the relevant Drawdown Date until the Maturity Date. For the P1.5 billion, the applicable interest rate for the Loan shall be (i) the Interest Rate for the period beginning on the Drawdown Date until the second anniversary of the Drawdown Date and (ii) the Interest Rate, for the period beginning on the day immediately following the second anniversary of the Drawdown Date until the Maturity Date. For the P5.0 billion, the applicable interest rate for the Loan shall be (i) the Interest Rate for the period beginning on the relevant Drawdown Date until the day immediately preceding the fifth anniversary of the initial Drawdown Date and (ii) the Reset Interest Rate, for the period beginning on the fifth anniversary of the initial Drawdown Date until the Maturity Date.

- b. The Group, through NGCP entered into a P5.9 billion from P20.90 billion Peso Bilateral Unsecured Term Loan drawn on January 10, 2022 ; P5.0 billion Peso Bilateral Unsecured Term Loan drawn on February 24, 2022, P10.0 billion Peso Bilateral Unsecured Term Loan drawn on April 7, 2022 (P5.0Bn) & July 14, 2022 (P5.0 billion), P3.2 billion Peso Bilateral Unsecured Term Loan drawn on September 9, 2022, P2.7 billion from P6.0 billion Peso Bilateral Unsecured Term Loan drawn on September 20, 2022 (P1.4 billion) & December 12, 2022 (P1.3 billion), and P4.7 billion Peso Bilateral Unsecured Term Loan drawn on November 14, 2022, intended for purposes of financing New Projects or for any other purpose related to carrying out the Concession including but not limited to financing capital expenditures. Terms of these loans include Ten-year Peso Bilateral Unsecured Term Loan for P5.90 billion from P20.90 billion, for P5.00 billion, for P10.0 billion, for P3.2 billion, for P2.7 billion from P6.0 billion and Five-year Peso Bilateral Unsecured Term Loan for P4.7 billion. The applicable interest rate for the P5.90 billion from P20.90 billion, the applicable interest rate for the Loan shall be (i) the Interest Rate for the period beginning on the relevant Drawdown Date until the fifth anniversary of the initial Drawdown Date and (ii) the Reset Interest Rate, for the period beginning on the Reset Date until the Maturity Date. For the P5.00 billion, the applicable interest rate for the Loan shall be (i) the Interest Rate for the period beginning on the Drawdown Date until the fifth anniversary of the Drawdown Date and (ii) the Reset Interest Rate, for the period beginning on the Reset Date until the Maturity Date. For the P10.0 billion, the applicable interest rate for the Loan shall be (i) the Interest Rate for the period beginning on the relevant Drawdown Date until the fifth anniversary of the initial Drawdown Date and (ii) the Reset Interest Rate, for the period beginning on the Reset Date until the Maturity Date. For the P3.2 billion, the applicable interest rate for the Loan shall be (i) the Interest Rate for the period beginning on the Drawdown Date until the fifth anniversary of the Drawdown Date and (ii) the Reset Interest Rate, for the period beginning on the Reset Date until the Maturity Date. For the P2.7 billion from P6.0 billion, the applicable interest rate for the Loan shall be (i) the Interest Rate for the period beginning on the relevant Drawdown Date until the fifth anniversary of the initial Drawdown Date and (ii) the Reset Interest Rate, for the period beginning on the day immediately following the fifth anniversary of the initial Drawdown Date until the Maturity Date. For the P4.7 billion, the applicable interest rate for the Loan shall be the Interest Rate for the period beginning on the Drawdown Date until the Maturity Date.

- c. The Group, through NGCP entered into a P4.00 billion; P5.00 billion; P3.00 billion from P6.00 billion; P5.00 billion, P6.00 billion and P4.00 billion from P20.90 billion; and P2.50 billion Peso Bilateral Unsecured Term Loan which were drawn on February 24, 2021, May 21, 2021, June 21, 2021, July 14, 2021, September 13, 2021, November 09, 2021 and December 16, 2021 respectively, intended for purposes of financing New Projects or for any other purpose related to carrying out the Concession including but not limited to financing capital expenditures. Terms of these loans include Ten-year Peso Bilateral Unsecured Term Loan for P4.00 billion; Five-year Peso Bilateral Unsecured Term Loan for P5.00 billion, Ten-year Peso Bilateral Unsecured Term Loan for P3.00 billion from P6.00 billion; Ten-year Peso Bilateral Unsecured Term Loan for P6.00 billion and P4.00 billion from P20.90 billion and Five-year Peso Bilateral Unsecured Term Loan for P2.50 billion drawn as at December 31, 2021. The applicable interest rate for the P4.00 billion Term Loan shall be: (i) the Interest Rate for the period beginning on the Drawdown Date until the fifth anniversary of the Drawdown Date and (ii) the Reset Interest Rate, for the period beginning on the Reset Date until the Maturity Date. For the P5.00 billion, the applicable interest rate shall be the Interest Rate for the period beginning on the Drawdown Date until the Maturity Date. For the P3.00 billion from P6.00 billion, the applicable interest rate for the Loan shall be (i) the Interest Rate for the period beginning on the relevant Drawdown Date until the fifth anniversary of the initial Drawdown Date and (ii) the Reset Interest Rate, for the period beginning on the Reset Date until the Maturity Date. For the P5.00 billion, P6.00 billion and P4.00 billion from P20.90 billion, the applicable interest rate for the Loan shall be (i) the Interest Rate for the period beginning on the relevant Drawdown Date until the fifth anniversary of the initial Drawdown Date and (ii) the Reset Interest Rate, for the period beginning on the Reset Date until the Maturity Date. For the P2.50 billion, the applicable interest rate for the Loan shall be (i) the Interest Rate for the period beginning on the Drawdown Date until the second anniversary of the Drawdown Date and (ii) the Reset Interest Rate, for the period beginning on the Reset Date until the Maturity Date.

- d. The Group, through NGCP, entered into a P4.20 billion from P7.00 billion, P1.00 billion, P10.00 billion, P3.00 billion from P6.00 billion, and P1.00 billion Peso Bilateral Unsecured Term Loan which were drawn on March 10, 2020, April 2, 2020, April 28, 2020, and the last two (2) loans both on July 10, 2020, respectively, intended for purposes of financing New Projects or for any other purpose related to carrying out the Concession including but not limited to financing capital expenditures. Terms of these loans include Five-year Peso Bilateral Unsecured Term Loan for P1.00 billion and Ten-year Peso Bilateral Unsecured Term Loan for P10.0 billion and the balance of P4.20 billion from P7.00 billion term loan, Ten-year Peso Bilateral Unsecured Term Loan for P6.00 billion, and Five-year Peso Bilateral Unsecured Term Loan for P1.00 billion drawn as at December 31, 2020. The applicable interest rate for the P1.00 billion Term Loan shall be: (i) the Interest Rate for the period beginning on the Drawdown Date until the second anniversary of the Drawdown Date and (ii) the Interest Rate, for the period beginning on the day immediately following the second anniversary of the Drawdown Date until the Maturity Date whereas the applicable interest rate for the P10.00 billion Term Loan shall be: (i) the Interest Rate for the period beginning on the relevant Drawdown Date until the fifth anniversary of the initial Drawdown Date and (ii) the Reset Interest Rate, for the period beginning on the Reset Date until the Maturity Date. For the P4.20 billion from P7.00 billion Term Loan, the applicable interest rate shall be (i) the Interest Rate for the period beginning on the relevant Drawdown Date until the fifth anniversary of such Drawdown Date and (ii) the Reset Interest Rate, for the period beginning on the Reset Date until the relevant Maturity Date. For the P6.00 billion, the applicable interest rate shall be (i) the Interest Rate for the period beginning on the relevant Drawdown Date until the fifth anniversary of the initial Drawdown Date and (ii) the Reset Interest Rate, for the period beginning on the Reset Date until the Maturity Date. For the P1.00 billion, the applicable interest rate shall be the Interest Rate for the period beginning on the Drawdown Date until the Maturity Date.
- e. The Group, through NGCP, entered into a P5.00 billion, P5.00 billion, P2.00 billion, P15.00 billion, P2.80 billion from P7.00 billion Peso Bilateral Unsecured Term Loan which were drawn on March 29, 2019, June 17, 2019, September 30, 2019, December 5, 2019 and December 10, 2019, respectively, intended for purposes of financing New Projects or for any other purpose related to carrying out the Concession including but not limited to financing capital expenditures. Terms of these loans include Ten-year Peso Bilateral Unsecured Term Loan for P5.00 billion, P5.00 billion, P2.00 billion, P15.00 billion and P2.80 billion from P7.00 billion TL drawn as at December 31, 2019. The applicable Interest rate for the first 5-years is based on 5-Yr BVal plus spread. Interest rate shall be reset on the fifth anniversary from the Drawdown Date and shall be applicable for the next 5-years.
- f. The Group, through NGCP, entered into a P2.50 billion Peso Bilateral Unsecured Term Loan which was drawn on December 10, 2019, intended for purposes of financing New Projects or for any other purpose related to carrying out the Concession including but not limited to financing capital expenditures. Terms of these loans include Five-year Peso Bilateral Unsecured Term Loan for P2.50 billion drawn as at December 31, 2019. The applicable interest rate is based on 5-Yr BVAL plus spread.



- g. In December 2018, the Group, through NGCP, entered into a P2.00 billion, P1.35 billion and P2.00 billion Peso Bilateral Unsecured Term Loan intended for purposes of financing New Projects or for any other purpose related to carrying out the Concession including but not limited to financing capital expenditures. Drawdowns of the P2.00 billion and P1.35 billion loan were made on December 18, 2018, and the remaining P2.00 billion was drawn on January 25, 2019. Terms of these loans include Five-year Peso Bilateral Unsecured Term Loan for P2.00 billion, P1.35 billion and P2.00 billion, of which P3.35 billion has been drawn as at December 31, 2018, and the balance of P2.00 billion has been drawn as at December 31, 2019. Applicable interest rate shall be the Interest Rate for the period beginning on the Drawdown Date until the Maturity Date whereas the other P2.00 billion applicable interest rate shall be: (i) the Interest Rate for the period beginning on the Drawdown Date until the second anniversary of the Drawdown Date and (ii) the Interest Rate, for the period beginning on the day immediately following the second anniversary of the Drawdown Date until the Maturity Date.
- h. The Group, through NGCP, entered into a P5.00 billion, P7.00 billion, P3.80 billion and P5.00 billion Peso Bilateral Unsecured Term Loans which were drawn on May 30, 2018, July 10, 2018, September 26, 2018 and October 16, 2018, respectively, intended for purposes of financing New Projects or for any other purpose related to carrying out the Concession including but not limited to financing capital expenditures. Terms of these loans include Ten-year Peso Bilateral Unsecured Term Loan for P5.00 billion, P3.80 billion, P7.00 billion and P5.00 billion drawn as at December 31, 2018. The applicable interest rate shall be: (i) the Interest Rate for the period beginning on the Drawdown Date until the Reset Date and (ii) the Reset Interest Rate, for the period beginning the day immediately following the Reset date until Maturity Date where the interest rate means from the Drawdown Date to the Reset Date of the aggregate of (a) the Fixed Rate Margin and (b) the applicable Base Rate.
- i. In September 2017, the Group, through NGCP, entered into a P5.00 billion Peso Bilateral Unsecured Term Loan intended to repay the P4.95 billion Peso Term Loan that matured on November 29, 2017. Another P10 billion Peso Bilateral Term Loan was availed on December 11, 2017, for purposes of financing New Projects or for any other purpose related to carrying out the Concession including but not limited to financing capital expenditures. Terms of these loans include Ten-year Peso Bilateral Unsecured Term Loan for P5.00 billion and P10 billion drawn as at December 31, 2017. Interest rate for the first 5-years is based on 5-Yr PDST-R2 plus spread. Interest rate shall be reset on the fifth anniversary from the Drawdown Date and shall be applicable for the next five years.
- j. In May 2016, the Group, through NGCP, entered into a P17.00 billion Peso Corporate Note Financing for purposes of financing New Projects or for any other purpose related to carrying out the Concession including, but not limited to, financing capital expenditures and paying the fees and expenses on the Facility. Drawdowns were made in the amount of P4.00 billion, P2.00 billion, and P3.00 billion on July 11, 2016, September 30, 2016, and December 15, 2016, respectively. The balance amounting to P8.00 billion was drawn in March 21, 2017. Terms of these loans include Ten-year, Unsecured Corporate Notes Facility with a consortium of five (5) local banks for P17.00 billion, of which P9.00 billion has been drawn as at December 31, 2016, and the balance of P8.00 billion has been drawn as at December 31, 2017. It bears an interest based on 5-Yr PDST-R2 plus spread and the principal payable beginning on the 12th month from initial issue date and the remaining for eighteen (18) semi-annual installments as a percentage of principal amount of borrowing.

- k. In July 2015, the Group, through NGCP, entered into a P15.00 billion Peso Corporate Note Financing for purposes of financing New Projects or for any other purpose related to carrying out the Concession including but not limited to financing capital expenditures and paying the fees and expenses on the Facility. Drawdowns were made in tranches of P5.00 billion, P3.00 billion and P5.00 billion, on July 10, 2015, September 10, 2015 and December 10, 2015, respectively. The balance amounting to P2.00 billion was drawn on March 31, 2016. Terms of these loans include Ten-year, Unsecured Corporate Notes Facility with a consortium of four (4) local banks for P15.00 billion, of which P13.00 billion has been drawn as at December 31, 2015, and the balance of P2.00 billion has been drawn as at December 31, 2016. It bears an interest based on 5-Yr PDST-R2 plus spread and the principal payable beginning on the 12th month from initial issue date and the remaining for eighteen (18) semi-annual installments as a percentage of principal amount of borrowing.
- l. In April 2014, the Group, through NGCP, entered into a P21.00 billion Peso Corporate Financing Facility to cover its funding requirements for calendar year 2014 including the financing of maturing obligations and approved capital expenditures. Initial drawdown amounting to P6.00 billion was made on April 10, 2014, to pay off the maturing US Dollar Bridge Loan. The succeeding drawdown of P8.00 billion, P5.00 billion and P2.00 billion were made on July 10, 2014, December 10, 2014 and January 30, 2015, respectively, to cover the funding of the Group's capital expenditures. Terms of these loans include Ten-year, Unsecured Corporate Notes Facility with a consortium of nine (9) local banks for P21.00 billion, of which P19.00 billion has been drawn as at December 31, 2014, and P2.00 billion has been drawn as at December 31, 2015. It bears an interest based on 5-yr PDST-F plus spread and the principal payable beginning on the 12<sup>th</sup> month from initial issue date and the remaining for eighteen (18) semi-annual installments as a percentage of principal amount of borrowing. Amendment was made effective April 10, 2019. Interest rate from 5-yr PDST-F to 5-yr BVal and noteholders were decreased to four (4).

Interest from these loans amounting to P7.43 billion and P5.89 billion in 2023 and 2022, respectively, were capitalized and recognized in Contract Assets under "Intangible asset" in the consolidated statements of financial position (see Note 8). Interest expense recognized in profit or loss amounted to P2.50 billion and P2.06 billion for the years ended December 31, 2023 and 2022, respectively.

*Financing of Concession Fee Prepayment*

In June 2013, the Group, through NGCP, signed unsecured loan facilities to partly prepay the concession fee payable which then had an outstanding balance of P111.44 billion. These loans were fully drawn on July 15, 2013.

The following are the terms of the Fixed-Rate Peso Corporate Notes:

Ten-year, Unsecured Corporate Loan Facility with a consortium of six (6) local banks for P29.50 billion which bears an interest based on PDST-F plus spread and the principal payable in twenty (20) semi-annual installments.

Interest expense from these loans recognized in profit or loss amounted to P0.34 billion and P0.69 billion in 2023 and 2022, respectively.

These loan agreements contain, among others, covenants relating to the Concession Agreement and maintenance of certain financial ratios such as the Debt Service Coverage Ratio and Debt-Equity Ratio. As at December 31, 2023 and 2022, the Group, through NGCP is in compliance with the covenants of its debt agreements.

*Changes in Liabilities Arising from Financing Activities*

The movements and balances of this account are as follows:

	Loans Payable
Balance at January 1, 2023	P167,091,500,614
Changes from financing cash flows:	
Proceeds from loans	49,400,000,000
Payment of loans payable and debt issue costs	(22,843,170,000)
Others - debt issue costs related transactions	(140,200,877)
Total liability related changes	26,416,629,123
Balance at December 31, 2023	P193,508,129,737

	Loans Payable
Balance at January 1, 2022	P151,236,070,615
Changes from financing cash flows:	
Proceeds from loans	31,500,000,000
Payment of loans payable and debt issue costs	(15,634,000,000)
Others - debt issue costs related transactions	(10,570,001)
Total liability related changes	15,855,429,999
Balance at December 31, 2022	P167,091,500,614

**15. Trade and Other Current Payables**

This account consists of:

	Note	2023	2022
Accrued expenses	24	P4,802,308,212	P6,667,990,256
Accounts payable	24	23,291,190,581	21,208,798,635
Due to government agencies and others		7,120,923,566	7,324,270,605
Interest payable	5, 14, 24	4,465,733,864	3,785,977,026
Current portion of lease liability	24	229,828,921	154,187,471
Franchise tax payable to BIR	26	143,784,015	268,558,764
		P40,053,769,159	P39,409,782,757

Accrued expenses include accruals on capital expenditures, purchases of materials and supplies, personal services, and other operating services.

Current portion of lease liability pertains to lease payments due within one year.

Accounts payable include amounts incurred by the Group for trade-related purchases.

Interest payable pertains to the interest due in relation to the Deferred Payments of the Concession Fee and interest related to loans payable (see Notes 5, 14 and 24).

Due to government agencies and others include amounts accruing to the ancillary services providers, TRANSCO and PSALM for the ancillary service charges, FIT-ALL and universal charges which are being billed and collected from the Group's customers on behalf of the ancillary service providers, TRANSCO, PSALM and the amount due to SSS, Philhealth, HDMF, withholding taxes and out VAT payable due to BIR. (see Notes 12, 13, 26 and 27).

## 16. Other Liabilities

This account consists of:

### A. Other Current Liabilities

	<i>Note</i>	<b>2023</b>	<b>2022</b>
Retention on contract payments		<b>P13,523,165,836</b>	P10,934,887,012
Advances for construction		<b>3,679,311,034</b>	2,862,260,923
Advances from shareholders	<i>21</i>	<b>843,274,843</b>	843,274,843
Bidders/suppliers deposits		<b>168,065,188</b>	129,257,708
Dividends payable	<i>1717</i>	<b>5,953,554</b>	1,235,526,797
Others		<b>2,729</b>	928
	<b>24</b>	<b>P18,219,773,184</b>	P16,005,208,211

### B. Other Noncurrent Liabilities

	<i>Note</i>	<b>2023</b>	<b>2022</b>
Advances for construction		<b>P1,389,898,877</b>	P1,503,684,634
Noncurrent portion of lease liability	<i>22, 24</i>	<b>171,197,745</b>	244,966,561
Deferred tax liability		-	56,947
		<b>P1,561,096,622</b>	P1,748,708,142

Retention on contract payments pertains to the amounts withheld from payments to contractors which shall be returned to the latter upon final acceptance of the project at the end of warranty period or upon posting by the contractor of warranty security if still within the warranty period.

Advances for construction pertains to advances made by third parties particularly generators for the construction of transmission facilities under Section 9 of the EPIRA consistent with the Transmission Development Plan subject to prior authorization by the ERC or for the cost of assets owned by third parties but reclassified as transmissions assets by ERC.

Bidders'/suppliers' deposits include all amounts received in compliance to specifications of contract bids or to ensure the fulfillment of contracts.

## 17. Equity

Capital stock consists of:

	Years Ended December 31					
	2023		2022		2021	
	Shares	Amount	Shares	Amount	Shares	Amount
<b>Capital Stock Authorized - P1 par value per share</b>	5,300,000,000	P5,300,000,000	5,300,000,000	P5,300,000,000	5,300,000,000	P5,300,000,000
Issued, fully paid and outstanding balance at beginning of year*	5,265,866,000	P5,265,866,000	5,265,866,000	P5,265,866,000	4,149,866,000	P4,149,866,000
Issued common shares to major shareholders during the year	-	-	-	-	62,500,000	62,500,000
Issued common shares during FOO	-	-	-	-	1,053,500,000	1,053,500,000
Issued, fully paid and outstanding balance at end of year	5,265,866,000	P5,265,866,000	5,265,866,000	P5,265,866,000	5,265,866,000	P5,265,866,000
<b>Additional Paid-in Capital</b>						
Additional paid-in capital balance at beginning of year	-	P88,928,018,694	-	P88,928,018,694	-	P77,907,600,000
Additional paid-in capital from issued common shares during FOO	-	-	-	-	-	11,568,500,000
Shares issuance costs	-	-	-	-	-	(568,081,306)
<b>Total Paid-up Capital</b>	-	P88,928,018,694	-	P88,928,018,694	-	P88,928,018,694

\*includes retroactive effect of Share Swap (Note 6)

As at December 31, 2023, 2022 and 2021, the Parent Company's share offer price is P6.55, P11.10, and P13.12, respectively.

In relation to the Parent Company's Share Purchase Agreement and the stockholders of OTHI and P21, discussed in Note 1, the BOD of the Parent Company approved the increase in the authorized capital stock of the Parent Company from P50.00 million divided into 50.00 million common shares at par value of P1.00 per share to P5.05 billion divided into 5.05 billion common shares at par value of P1.00 per share on November 14, 2019.

The application for the Amendment of Articles of Incorporation for the increase in authorized capital stock was approved by the SEC on May 28, 2021.

On November 10, 2021 SGDPI, under the symbol "SGP", the Parent Company publicly listed its 1,053,500,000 shares from its Follow-On Offering (FOO) on the Philippines Stock Exchange with overallotment option of up to 101,000,000 secondary shares at PHP12.00 per common share.

SGP indirectly controls 60% is the outstanding voting capital stock of NGCP, SGP's sole operating asset with an effective equity interest of 45.726%.

### Cash Dividends

On August 10, 2021, the BOD of the Parent Company approved the adoption of the policy to declare dividends equivalent to up to 100% of the prior year's net income after tax based on the Parent Company's audited financial statements as of such year, upon declaration of the BOD and subject to the availability of unrestricted retained earnings and settlement of operational expenses and other relevant taxes, cost and expense required to pay the ordinary course of business and subject to any financing covenants, if applicable.

On March 8, 2023, the BOD of the Parent Company approved the declaration of P0.1737 cash dividends per share for the 1st quarter of 2023 totaling to P914.68 million. These cash dividends were paid to shareholders of record as of March 23, 2023 on April 13, 2023.

On June 21, 2023, the BOD of the Parent Company approved the declaration of P0.1737 cash dividends per share for the second quarter of 2023 totaling to P914.68 million. These cash dividends were paid to shareholders of record as of July 6, 2023 on July 21, 2023.

In 2023, the BOD of OTHI approved the declaration of cash dividends amounting to P1.08 billion to all shareholders of record as of date of the meeting.

In 2023, the BOD of P21 approved the declaration of cash dividends amounting to P1.08 billion to all shareholders of record as of date of the meeting.

For the year ended December 31, 2023, the BOD of NGCP approved the declaration of cash dividends amounting to P4.00 billion to all shareholders of record as of date of the meeting. Of the total amount declared, P1.45 billion pertains to the share of the Parent Company which is eliminated during consolidation.

On March 23, 2022, the Board of Directors of the Parent Company approved the declaration of P0.22 dividend /share for the first quarter of 2022 totaling to P1.16 billion. These cash dividends were paid to shareholders of record as of April 6, 2022 on April 22, 2022.

On June 22, 2022, the Board of Directors of the Parent Company approved the declaration of P0.26 dividend /share for the second quarter of 2022 totaling to P1.37 billion. These cash dividends were paid to shareholders of record as of July 6, 2022 on July 22, 2022.

On September 21, 2022, the Board of Directors of the Parent Company approved the declaration of P0.26 dividend /share for the third quarter of 2022 totaling to P1.37 billion. These cash dividends were paid to shareholders of record as of October 5, 2022 on October 19, 2022.

On December 7, 2022, the Board of Directors of the Parent Company approved the declaration of P0.26 cash dividend /share for the fourth quarter of 2022 totaling to P1.37 billion. These cash dividends were paid to shareholders of record as of December 22, 2022 on January 13, 2023.

On September 27, 2021, the Board of Directors of the Parent Company approved the declaration of P. 2375 dividend /share for each of the second and third quarter of 2021 totaling to P.475 dividend /share amounting to P2.0 billion. These cash dividends were paid to shareholders of record as of October 11, 2021 on October 18, 2021.

On November 19, 2021, the BOD of the Parent Company approved the declaration of P0.20 cash dividends /share for the fourth quarter of 2021 totaling to P1.05 billion. These cash dividends were paid to shareholders of record as of December 14, 2021 on January 10, 2022.

In 2022, the BOD of OTHI approved the declaration of cash dividends amounting to P3.32 billion to all shareholders of record as of date of the meeting.

In 2022, the BOD of P21 approved the declaration of cash dividends amounting to P3.32 billion to all shareholders of record as of date of the meeting.

For the year ended December 31, 2022, the BOD of NGCP approved the declaration of cash dividends amounting to P12.00 billion to all shareholders of record as of date of the meeting. Of the total amount declared, P7.20 billion pertains to the share of the Parent Company which is eliminated during consolidation.

In 2021, the BOD of OTHI approved the declaration of cash dividends amounting to P3.60 million to all shareholders of record as of date of meeting.

In 2021, the BOD of P21 approved the declaration of cash dividends amounting to P3.60 million to all shareholders of record as of date of meeting.

In 2021, the BOD of NGCP approved the declaration of cash dividends amounting to P12.00 billion to all shareholders of record as of date of the meeting. Of the total amount declared, P7.20 billion pertains to the share of the Parent Company which is eliminated during consolidation.

Total dividends paid amounted to P5.36 billion, P11.52 billion and P10.46 billion in 2023, 2022 and 2021, respectively.

As of December 31, 2023, dividends payable from the above declaration amounted to P5.95 million and P1.23 billion, respectively.

#### *Retained Earnings*

The retained earnings of the Group include the accumulated earnings in subsidiaries not available for declaration as dividends until declared by the respective investee. Retained earnings includes NGCP's unbilled incremental IMAR2020 for the years 2020, 2021 and four (4) months of 2022 amounting to P17.62 billion. NGCP is yet to receive ERC's resolution on NGCP's proposed manner of recovery of the unbilled IMAR2020 (see Notes 20 and 27).

### **18. Earnings Per Share**

Basic and diluted earnings per share at December 31 are computed as follows:

	<i>Note</i>	<b>2023</b>	<b>2022</b>	<b>2021</b>
(a) Net income attributable to Equity holders of the Parent Company		<b>P10,645,372,151</b>	P15,021,096,101	P9,124,966,265
Issued common shares at January 1*		<b>P5,265,866,000</b>	P5,265,866,000	P4,149,866,000
Weighted average number of issued common shares to major shareholders during the year	<i>1</i>	-	-	26,041,667
Weighted average number of issued common shares during FOO	<i>1</i>	-	-	175,583,333
(b) Weighted average common shares outstanding		<b>P5,265,866,000</b>	P5,265,866,000	P4,351,491,000
Basic/Diluted earnings per share (a/b)		<b>P2.02</b>	P2.85	P2.10

\*includes retroactive effect of Share Swap (Note 6)

As at December 31, 2023 and 2022, the Group does not have any potential common shares or other instruments that may entitle the holder to common shares. Consequently, diluted earnings per share is the same as basic earnings per share in December 31, 2023 and 2022.

### **19. Segment Reporting**

The Group operates through its transmission services across Luzon, Visayas and Mindanao. The Group's results of operations are reviewed by Management on a monthly basis to make decisions and to assess the Group's financial performance and financial position, and for which discrete information is available.

Accordingly, management has assessed that the Group is considered as a single business and, hence, there are no operating segments required to be disclosed under PFRS 8, *Operating Segments*.

## 20. Revenues

This account at December 31 consists of:

	2023	2022	2021
Transmission services operating income	<b>P51,471,140,608</b>	P60,310,396,241	P47,051,740,556
Connection and residual sub-transmission income	<b>1,528,640,099</b>	1,510,376,267	1,552,466,086
Power factor adjustment	-	576,068	-
Reconnection fee	-	19,417	-
	<b>P52,999,780,707</b>	P61,821,367,993	P48,604,206,642

Transmission services operating income pertains to service charges for the use of the transmission facilities under the Concession Agreement where power delivery, system operation and metering services are provided by the Group.

The transmission services operating income amounting to P51.47 billion and P60.31 billion iMAR based on the P51.47 as of December 31, 2023 and 2022. The December 2022 balance includes unbilled incremental IMAR2020 approved by ERC in an order dated March 23, 2022 for the year 2020 and 2021 amounting to P8.84 billion. Consequently, on June 8, 2022, the Group, through NGCP submitted to ERC its Compliance dated June 2, 2022 on NGCP proposed manner of recovery of the said unbilled IMAR<sub>2020</sub> starting September 2022 to June 2024 which the ERC is yet to issue its resolution.

Connection charges are charges to recover the reasonable costs associated with connecting the transmission customers' facilities to the transmission providers' facilities. Residual sub-transmission charges are charges to recover the reasonable costs associated with sub-transmission assets that are not otherwise recovered through the connection charge.

In the following table, revenue is disaggregated by geographical market and electric power industry participants.

### 2023:

	Transmission Services Operating Income	Connection and Residual Sub-transmission Income	Power Factor Adjustment and Reconnection Fee	Total
<b>Luzon</b>	<b>P38,309,973,402</b>	<b>P830,126,578</b>	<b>P -</b>	<b>P39,140,099,980</b>
Distribution utilities	P36,707,039,207	P765,881,562	P -	P37,462,900,769
Generators	436,678,759	5,605,302	-	442,284,061
Directed Connected/Non-DUs	1,166,255,436	68,659,714	-	1,234,915,150
<b>Visayas</b>	<b>P6,176,535,020</b>	<b>P251,168,833</b>	<b>P -</b>	<b>P6,427,703,853</b>
Distribution utilities	P5,710,936,417	P238,637,309	P -	P5,949,573,726
Generators	199,212,495	29,284	-	199,241,779
Directed Connected/Non-DUs	266,386,108	12,502,240	-	278,888,348
<b>Mindanao</b>	<b>P6,984,632,186</b>	<b>P447,344,688</b>	<b>P -</b>	<b>P7,431,976,874</b>
Distribution utilities	P6,782,844,623	P439,729,922	P -	P7,222,574,545
Generators	105,530,159	-	-	105,530,159
Directed Connected/Non-DUs	96,257,404	7,614,766	-	103,872,170
<b>December 31, 2023 Total</b>	<b>P51,471,140,608</b>	<b>P1,528,640,099</b>	<b>P -</b>	<b>P52,999,780,707</b>



2022:

	Transmission Services Operating Income	Connection and Residual Sub-transmission Income	Power Factor Adjustment and Reconnection Fee	Total
Luzon	P44,820,384,671	P821,149,606	P595,485	P45,642,129,762
Distribution utilities	P34,829,010,241	P745,041,979	P -	P35,374,052,220
Generators	344,422,432	6,397,155	-	350,819,587
Directed Connected/Non-DUs	1,430,889,399	69,710,472	595,485	1,501,195,356
Accruals for IMAR and Under-recovery	8,416,062,599	-	-	8,416,062,599
Visayas	P7,269,845,048	P248,253,130	P -	P7,518,098,178
Distribution utilities	P5,296,992,180	P235,680,194	P -	P5,532,672,374
Generators	265,260,756	28,923	-	265,289,679
Directed Connected/Non-DUs	307,000,512	12,544,013	-	319,544,525
Accruals for IMAR and Under-recovery	1,400,591,600	-	-	1,400,591,600
Mindanao	P6,637,147,386	P440,973,531	P -	P7,078,120,917
Distribution utilities	P6,468,173,133	P433,458,150	P -	P6,901,631,283
Generators	78,124,406	-	-	78,124,406
Directed Connected/Non-DUs	90,849,847	7,515,381	-	98,365,228
Accruals for IMAR and Under-recovery	P1,583,019,136	P -	P -	P1,583,019,136
December 31, 2022 Total	P60,310,396,241	P1,510,376,267	P595,465	P61,821,367,993

2021:

	Transmission Services Operating Income	Connection and Residual Sub-transmission Income	Total
Luzon	P32,592,288,434	P854,644,924	P33,446,933,358
Distribution utilities	P30,972,478,057	P773,362,000	P31,745,840,057
Generators	302,722,396	6,492,771	309,215,167
Directed Connected/ Non-DUs	1,317,087,981	74,790,153	1,391,878,134
Visayas	P5,254,686,397	P248,646,787	P5,503,333,184
Distribution utilities	P4,836,454,049	P235,658,416	P5,072,112,465
Generators	132,867,289	28,923	132,896,212
Directed Connected/ Non-DUs	285,365,059	12,959,448	298,324,507
Mindanao	P5,942,175,725	P449,174,375	P6,391,350,100
Distribution utilities	P5,784,960,557	P441,658,994	P6,226,619,551
Generators	77,819,681	-	77,819,681
Directed Connected/ Non-DUs	79,395,487	7,515,381	86,910,868
Accruals for IMAR and Under-recovery	P3,262,590,000	P -	P3,262,590,000
December 31, 2021 Total	P47,051,740,556	P1,552,466,086	P48,604,206,642

Based on the ERC-promulgated Transmission Wheeling Rate Guidelines (TWRG) of May 2003, amended in 2009 as the Rules for Setting the Transmission Wheeling Rates (RTWR), the Group is regulated under a performance-based regulation (PBR) revenue cap methodology.

During the reset process, the ERC makes a determination of the annual revenue requirements (ARR) of the transmission business as well as the price control arrangements that will apply during the regulatory period.

The Fourth Regulatory Period (4<sup>th</sup> RP) reset process for the transmission business under the PBR has been delayed. Under the RTWR, the Group would have filed its revenue application for the 4<sup>th</sup> RP covering the periods of 2016 to 2020 in 2015. To bridge the gap, on October 2, 2015, the Group filed an Application for the Approval of an Interim Maximum Annual Revenue for 2016 (iMAR<sub>2016</sub>) in the amount of P45.29 billion.

In an Order dated January 21, 2016, the ERC provisionally approved an iMAR<sub>2016</sub> of P41.65 billion. Subsequently, the Group filed a Motion for Reconsideration dated February 24, 2016 and an Omnibus Motion dated December 6, 2016.

As resolution of the foregoing, the ERC issued an Order dated December 19, 2016, authorizing the Company to implement an adjusted iMAR<sub>2016</sub> of P43.79 billion. Further, the ERC directed that the difference between the provisionally-approved iMAR<sub>2016</sub> of P41.65 billion and the approved iMAR of P43.79 billion, in the amount of P2.14 billion, be collected by NGCP in 2017 (see Note 27).

Furthermore, the same Order provides that NGCP is authorized to continuously bill its transmission customers using an adjusted iMAR of P43.79 billion for the succeeding regulatory years until the ERC's issuance of the Final Determination for the 4<sup>th</sup> RP, thus the billing of an iMAR of P43.79 billion in 2018 and 2019.

On October 29, 2019, NGCP filed an Application with the ERC for the Approval of an Interim Maximum Annual Revenue for Calendar Year 2020 (iMAR<sub>2020</sub>) in the amount of P58,846 million, docketed as ERC Case No. 2019-086RC. Subsequently, the ERC, in its Order dated February 13, 2020, granted NGCP a provisional authority to implement an iMAR<sub>2020</sub> in the amount of P47.05 billion effective April 2020 billing month. Billing of the incremental revenue, however, has been deferred in consideration of the situation brought about by the Corona Virus Disease 2019 (COVID-19) pandemic.

Following the easing of quarantine arrangements, NGCP gradually billed portion of the iMAR<sub>2020</sub> differential in the total amount of P300 Million for both billing months of July and August 2020. However, in September 2020, the ERC directed the suspension of the billing of the iMAR<sub>2020</sub> providing among others that the demand forecast used in the determination are no longer valid and would need to be re-assessed. In compliance with the Order issued in September 2020, NGCP discontinued the billing resulting in an unbilled iMAR<sub>2020</sub> differential in the amount of P2.96 billion.

In compliance with the ERC's directive during the September 24, 2020, public hearing and with the ERC's Order dated October 23, 2020 which was received by NGCP on October 29, 2020, NGCP submitted the following information to the ERC in December 2020 to substantiate the proposed iMAR<sub>2020</sub>.

- a. Reconciliation of the actual CAPEX with NGCP's Financial Statements;
- b. Actual and Forecast Billing Determinant for CY 2019-2021;
- c. NGCPs Actual and Forecasted CAPEX for 2011 to 2020 (Updated);
- d. Percentage Completion of ERC-approved CAPEX Projects under/outside of the 3<sup>rd</sup> Regulatory Period Final Determination, as at October 2020;
- e. Indicative 2020 Transmission Rate; and
- f. Possible approach on the collection of unbilled portions of the ERC-approved iMAR<sub>2020</sub> in the forthcoming year of 2021.

ERC issued a subsequent Order dated December 15, 2020, directing NGCP to submit the following additional information in support of its iMAR<sub>2020</sub> Application and which was submitted by NGCP on January 28, 2021, as follows:

- a. Updated Actual Demand for Year 2020;
- b. Detailed Analysis and Basis of the Forecast Demand for Year 2021;
- c. Updated Rate Movement on a Per kW and per kWh as at December 2020;
- d. Updated Actual and Forecast CAPEX for Calendar Years 2011 to 2020;
- e. Estimated Demand Data particularly for the Battery Energy Storage System (BESS) and transmission services to the Kalayaan Pumped Storage Power Plant (KPSPP) which NGCP included in the said forecast; and
- f. Load Billing Determinant with and without BESS and KPSPP.

Relative to the directives of the ERC on the iMAR<sub>2020</sub> Application, NGCP submitted Compliances with Motion dated December 3, 2020 and January 28, 2021, which prayed for, among others, the confirmation from ERC that the approved iMAR<sub>2020</sub> level shall be implemented continuously until a new MAR is issued, or until the issuance of a Final Determination for the succeeding regulatory period, whichever is earlier. As at report date, the ERC is yet to issue its resolution on said Compliances.

Given the significant recovery of the demand and energy consumption in the country in 2021, in contrast with the recorded data in 2020, NGCP deemed that the circumstances surrounding the issuance of the July 28, 2020 Order no longer exist and that there are justifiable grounds to lift the said Order. Hence, the filing of the Reiteratory Motion in October 2021 praying for the following:

- a. lifting the July 28, 2020 Order;
- b. allowing NGCP to recover the deferred 2020 iMAR on top of the current iMAR and iMAR for 2022, to be implemented starting October 2021 to March 2022 billing period;
- c. allowing NGCP to recover the unbilled 2021 iMAR on top of the iMAR for 2022, to be implemented from April 2022 to December 2022;
- d. confirming that the approved iMAR<sub>2020</sub> level of P47,051.64 million shall be implemented continuously until a new MAR is issued, or until the issuance of the Final Determination for the succeeding regulatory period, whichever is earlier.

As at December 31, 2021, management assessed that the suspension order merely defers the implementation of the P47.05 billion, and that there is no other ERC issuance or directive that states otherwise (i.e., that revenue has been modified), similar to the practice adopted by the industry.

On January 17, 2022, NGCP submitted its compliance to the January 5, 2022, ERC Order to submit documents to facilitate the final evaluation of the application, which was received by NGCP on January 7, 2022, more specifically on the following:

- a. Latest actual demand for CY 2021 and forecast demand for 2022 onwards, including economic indicators demand justification; and
- b. Latest actual Capital Expenditure (CAPEX) for CYs 2011 to 2021 (including, but not limited to, Disbursement and Percent Completion as of December 2021) and forecast CAPEX for CY 2022)

On April 29, 2022, the ERC promulgated an Order dated March 23, 2022, resolving the iMAR<sub>2020</sub> Application and approving an iMAR<sub>2020</sub> of P51.47 billion effective January 2020 until a new transmission revenue has been determined.

Starting May 2022 Billing Period, NGCP has already implemented the billing based on the P51.47 billion iMAR pursuant to the 23 March 2022 Order of the ERC.

On June 8, 2022, in compliance with the direction of the Commission, NGCP submitted to ERC its Compliance dated June 2, 2022, on NGCP's proposed manner of recovery of the unbilled IMAR<sub>2020</sub> for the years 2020, 2021 and four (4) months of 2022, for the total amount of P17,624.85 million, starting September 2022 to 2024.

On March 10, 2023, NGCP filed its Motion (To Approve Implementation of Recovery Scheme) reiterating its prayer for the approval of the billing and recovery of the unbilled IMAR for 2020 under a new proposed recovery scheme, i.e., from May 2023 to April 2024.

On May 17, 2023, NGCP filed an Urgent Reiteratory Motion to Resolve with the ERC on the implementation of the new proposed recovery scheme. Subsequently, on June 22, 2023, NGCP once again filed a Reiteratory Motion with Motion to Resolve on the billing and recovery of the unbilled IMAR for 2020 in accordance with the same proposed recovery scheme.

To date, NGCP is yet to receive ERC's resolution on NGCP's proposed manner of recovery of the unbilled IMAR<sub>2020</sub> for the years 2020, 2021, and four (4) months of 2022.

Pending the issuance of the ERC Decisions/Orders on the 4th and 5th RP Revenue Applications and in the absence of an issuance on the applicable IMAR for 2023, NGCP shall continue to implement the IMAR<sub>2020</sub> level of Php51.47 billion in billing Luzon, Visayas, and Mindanao customer segments until a new level of MAR is approved.

## 21. Related Party Disclosures

Relationship with Related Parties	Year	Note	Amount of Transaction (in Millions)	Outstanding Balance (in Millions)	Terms and Conditions	
Companies with the Same BOD						
▪ PGAI	December 31, 2023	a	P775.64	P1.58	On demand; non-interest bearing	Unsecured
	December 31, 2022	a	476.12	1.99		
	December 31, 2021	a	319.75	4.15		
▪ SMDC	December 31, 2023	b	-	-	On demand; non-interest bearing	Unsecured
	December 31, 2022	b	-	-		
	December 31, 2021	b	6.74	1.71		
Shareholders	December 31, 2023	c	-	843.27	On demand; non-interest bearing	Unsecured
	December 31, 2022	c	-	843.27		
	December 31, 2021	c	-	843.27		
Key Management Personnel						
▪ Short-term benefits	December 31, 2023	d	418.82	-		
	December 31, 2022	d	376.41	-		
	December 31, 2021	d	307.99	-		
▪ Post-employment benefits	December 31, 2023	d	30.07	-		
	December 31, 2022	d	23.20	-		
	December 31, 2021	d	22.30	-		
December 31, 2023				P844.85		
December 31, 2022				P845.26		
December 31, 2021				P849.13		

- a. The Group, through NGCP, has related party transactions with Prudential Guaranty Assurance, Inc. (PGA) amounting to P775.64 million, P476.12 million and P319.75 million on 2023, 2022 and 2021, respectively, representing insurance premiums. The outstanding insurance payable to PGA amounting to P1.58 million and P1.99 million as of December 31, 2023 and 2022, respectively, are recorded under the "Trade and other current payables" account in the consolidated statements of financial position. This pertains to motor vehicle insurance, aviation, commercial general liability insurance, PGA protect, motor comprehensive, industrial all risk, engineering electronic equipment insurance and warehouse insurance in nature (see Note 15).
- b. The Group, through NGCP, also has existing lease agreement for parking space with SM Development Corporation (SMDC) amounting to nil in 2023 and 2022 and P6.74 million in 2021. There was no outstanding balance payable to SMDC amounting as of December 31, 2023 and 2022, which are recorded under the "Trade and other current payables" account in the consolidated statements of financial position (see Note 15).
- c. As at and December 31, 2023 and 2022, Group, through P21, has outstanding payables to its stockholders amounting to P843.27 million, which are included under "Other current liabilities" account in the consolidated statements of financial position. These payables were obtained for working capital requirements and part of these payables were used to pay for CHPC's professional fees and other various expenses and liabilities. These payables are non-interest bearing, payable on demand and will be settled in cash. On September 23, 2021, the Parent Company paid its outstanding advances from its two major stockholders amounting to P250.05 million which was used by the Group as its source of fund in relation to the share swap transactions (see Note 16).
- d. Total remunerations of key management personnel which represent short-term benefits in 2023, 2022 and 2021 amounted to P418.82 million, P376.41 million and P307.99 million respectively. Total key management compensation relating to post-employment benefits in 2023, 2022 and 2021 amounted to P30.07 million P23.20 million and P22.30 million, respectively.

Short-term benefits are consist of salaries, terminal leave, 13th month/bonus and other statutory contributions to Social Security System (SSS), Philippine Health Insurance Corporation (Philhealth, Home Development Mutual Fund (commonly known as the Pag-IBIG Fund).

Post-employment benefits consist of Retirement Benefits, under Republic Act No. 7641, The Retirement Pay Law (the "Act") which provides compulsory retirement at the age of sixty-five (65) or upon optional retirement at the age of sixty (60) or more but not more than sixty-five (65) with at least five (5) years in service. The retirement benefits as required by the Act are equivalent to 22.5 days for every year of service, a fraction of at least six (6) months being considered as one (1) whole year. The 22.5 days shall be defined as one half month (15 days) plus one-twelfth (1/12) of the 13th month pay and the cash equivalent of 5 days of service incentive leaves.

## 22. Leases

### Leases as Lessee

The Group leases vehicles, parking lots and office spaces. The leases typically run for a period of five (5) years. Some leases include an option to renew the lease for an additional five years after the end of the non-cancellable lease period. Some leases provide for additional rent payments that are based on change in local price indices.

The Group leases other vehicles, printers and copiers which are short term and/or leases of low-value items. The Group has elected not to recognize right-of-use assets and lease liabilities for these leases.

Information about leases for which the Group is a lessee is presented below.

### Right-of-Use Assets

	2023	2022
Balance at January 1	<b>P372,141,335</b>	P55,124,278
Additions	<b>218,574,505</b>	465,412,081
Disposals	-	(638,722)
Depreciation for the year	<b>(214,381,089)</b>	(147,756,302)
Balance at December 31	<b>P376,334,751</b>	P372,141,335

Depreciation is recorded as part of "Depreciation Expense" in the consolidated statements of income.

The Group classified its lease liability as part of "Trade and other current payables" and "Other noncurrent liabilities" in the consolidated statements of financial position as follows:

	2023	2022
Balance at beginning of year	<b>P399,154,033</b>	P52,751,588
Additions	<b>218,574,505</b>	456,841,427
Lease payments inclusive of interest payments	<b>(241,182,232)</b>	(121,457,406)
Interest expense	<b>24,480,359</b>	11,018,424
Balance at end of year	<b>P401,026,665</b>	P399,154,033

Expenses relating to short-term leases amounted to P108.60 million and P100.86 million in 2023 and 2022, respectively, were recorded as part of "Rent" in the consolidated statements of income.

The Group had total cash outflows for the above leases amounting to P348.16 million and P222.32 million in 2023 and 2022, respectively.

The following table sets out a maturity analysis of lease payments, showing undiscounted and discounted lease payments to be made after the reporting date:

<b>December 31, 2023</b>	<b>Future Minimum Lease Payments</b>	<b>Interest</b>	<b>Present Value of Minimum Lease Payments</b>
Less than one year	<b>P246,650,462</b>	<b>P16,821,541</b>	<b>P229,828,921</b>
Between one to five years	<b>180,223,132</b>	<b>9,025,388</b>	<b>171,197,744</b>
	<b>P426,873,594</b>	<b>P25,846,929</b>	<b>P401,026,665</b>

<b>December 31, 2022</b>	<b>Future Minimum Lease Payments</b>	<b>Interest</b>	<b>Present Value of Minimum Lease Payments</b>
Less than one year	<b>P169,419,885</b>	<b>P15,232,414</b>	<b>P154,187,471</b>
Between one to five years	<b>256,326,832</b>	<b>11,360,270</b>	<b>244,966,562</b>
	<b>P425,746,717</b>	<b>P26,592,684</b>	<b>P399,154,033</b>

### **23. Retirement Benefits**

As at December 31, 2023 and 2022, the Group, through NGCP has funded, noncontributory defined benefit retirement plan covering all its regular employees. The current service cost and the present value of obligations were derived on the basis of the projected unit credit method.

The latest actuarial valuation report of the Group is dated February 29, 2024 for the year ended December 31, 2023.

#### Salient Provisions of the Retirement Plan

The plan provides retirement benefits under Republic Act No. 7641 (the Act) upon compulsory retirement at the age of sixty-five (65) or upon optional retirement at age sixty (60) or more but not more than age sixty-five (65) with at least five (5) years in service. The benefits as required by the Act are equivalent to 22.5 days for every year of service, a fraction of at least six (6) months being considered as one (1) whole year. The 22.5 days shall be defined as follows: One half month (15 days) plus one-twelfth (1/12) of the 13th month pay and the cash equivalent of 5 days of service incentive leaves.

#### Funding Arrangements

The Group, through NGCP's Compensation Committee, in a meeting on February 26, 2014, approved the establishment of the Employee Retirement Plan in compliance with Republic Act No. 7641. On December 22, 2014, the retirement fund has been established by the Group. Benefit claims under the retirement obligation are paid directly by the Group when they become due.

The following table shows a reconciliation of the net defined benefit retirement liability and its components:

	Fair Value of Plan Assets		Present Value of Defined Benefit Obligation		Net Defined Benefit Retirement Liability	
	2023	2022	2023	2022	2023	2022
Balance at beginning of year	P336,766,917	P342,046,909	P2,431,602,341	P2,456,734,271	P2,094,835,424	P2,114,687,362
Recognized in Profit or Loss and Statement of Financial Position						
Service costs	-	-	198,244,374	216,714,481	198,244,374	216,714,481
Interest expense	-	-	175,075,369	125,293,448	175,075,369	125,293,448
Interest income	24,247,218	17,444,392	-	-	(24,247,218)	(17,444,392)
	24,247,218	17,444,392	373,319,743	342,007,929	349,072,525	324,563,537
Recognized in Other Comprehensive Income						
Remeasurements:						
Actuarial losses (gains) arising from:						
Experience adjustments	-	-	85,381,750	(45,260,561)	85,381,750	(45,260,561)
Changes in financial assumptions	-	-	228,936,974	(216,737,756)	228,936,974	(216,737,756)
Return (loss) on plan asset excluding interest	(4,751,973)	(22,724,384)	-	-	4,751,973	22,724,384
	(4,751,973)	(22,724,384)	314,318,724	(261,998,317)	319,070,697	(239,273,933)
Others						
Contributions	145,708,243	105,141,542	-	-	(145,708,243)	(105,141,542)
Benefits paid	(145,708,243)	(105,141,542)	(145,708,243)	(105,141,542)	-	-
	-	-	(145,708,243)	(105,141,542)	(145,708,243)	(105,141,542)
Balance at end of year	P356,262,162	P336,766,917	P2,973,532,565	P2,431,602,341	P2,617,270,403	P2,094,835,424

Plan assets consist of the following:

	2023	2022
Deposits in banks	0.01%	0.00%
Debt securities	70.51%	70.49%
Equity securities	25.11%	25.80%
Investment in unit investment trust fund	3.55%	2.86%
Other assets	0.82%	0.85%
	100%	100.00%

The retirement benefits cost under "Salaries, wages and employees' benefits" in the consolidated statements of income is recognized as follows:

	2023	2022
Current service cost	P170,490,162	P186,374,454
Interest cost	150,564,817	107,752,365
Interest Income of plan asset	(20,852,607)	(15,002,177)
	P300,202,372	P279,124,642

The retirement benefits cost under "Intangible asset - net" in the consolidated statements of financial position is recognized as follows:

	2023	2022
Current service cost	P27,754,212	P30,340,027
Interest cost	24,510,552	17,541,083
Interest income of plan asset	(3,394,611)	(2,442,215)
	P48,870,153	P45,438,895



#### Actuarial Assumptions

The following are the principal actuarial assumptions at the reporting date (expressed as percentages under weighted averages):

	2023	2022
Discount rate	6.10%	7.20%
Future salary growth	5.00%	5.00%

Assumptions regarding future mortality have been based on published statistics and mortality tables.

The mortality and the disability rate used in the valuation were based on 100% of the 1985 Unisex Annuity Table and 100% of the 1952 Disability Table, respectively. The discount rate assumed was based on single-weighted present value approach using bootstrapped-derived zero rates from BVAL index.

The weighted average duration of the defined benefit liability as at December 31, 2023 and 2022 is 11 years.

#### Assumptions and Relevant Information

##### Sensitivity Analysis

The calculation of the defined benefit obligation is sensitive to the assumptions set out above. The following table summarizes how the impact on the defined benefit obligation at the end of the reporting period would have increased (decreased) as a result of a change in the respective assumptions by 1%.

	December 31, 2023	
	1% Increase	1% Decrease
Discount rate	(P209,628,770)	P244,101,574
Salary increase rate	227,571,168	(199,029,310)

	December 31, 2022	
	1% Increase	1% Decrease
Discount rate	(P159,879,343)	P184,894,016
Salary increase rate	173,539,079	(152,554,730)

Although the analysis does not take account of the full distribution of cash flows expected under the plan, it does provide an approximation of the sensitivity of the assumption shown.

This defined benefit plan exposes the Group to actuarial risks, such as interest rate risk, longevity and salary risk.

The Group plans to make additional funding in 2024, subject to the approval of the Management.

## 24. Financial Instruments

The accounting policies for financial instruments classified under loans and receivables have been applied to the line items below:

	Note	2023	2021
Current assets:			
Cash and cash equivalents	11	P9,912,916,098	P4,834,943,904
Accrued power receivables	12	732,532,033	6,430,656,406
Power receivables	12	4,421,503,592	4,547,634,467
Due from customers	12	3,008,838,471	3,749,632,681
Restructured power receivables	12	73,729,976	53,383,239
Interest receivable	12	3,926,222	555,138
Due from officers and employees and other receivables	12	138,663,332	148,302,680
Advance payment to suppliers and contractors	13	15,951,538,965	18,158,867,110
Total current financial assets		34,243,648,689	37,923,975,625
Noncurrent assets:			
Accrued power receivables		18,507,913,333	12,809,832,000
Restructured power receivables		1,409,399,028	1,437,336,225
Power receivables		120,541,875	120,043,847
Due from customers		439,437,957	444,233,622
Other noncurrent account receivable		1,412,909,900	1,007,927,847
Total noncurrent financial assets	12	21,890,202,093	15,819,373,541
Total financial assets		P56,133,850,782	P53,743,349,166

Details of movements of allowance for impairment losses are as follows:

	2023	2021
Balance at beginning of year	P2,006,798,659	P1,942,128,659
Provision for impairment losses on receivables during the year	64,670,000	64,670,000
Balance at end of year	P2,071,468,659	P2,006,798,659

Trade and other current payables, concession fee payable, loans payable, customers' and other deposits and other current liabilities in the consolidated statements of financial position as at December 31, 2023 and 2022 are designated as other financial liabilities. Except for concession fee payable and loans payable, the balances disclosed are the contractual undiscounted cash flows which equal their carrying amounts, as the impact of discounting is not significant.

### Financial Risk Management

The Group's activities expose it to a variety of financial risks and those activities involve the analysis, evaluation, acceptance and management of some degree of risk or combination of risks. Taking risk is core to the financial business, and the operational risks are an inevitable consequence of being in business. The Group's aim is therefore to achieve an appropriate balance between risk and return and minimize potential adverse effects on the Group's financial performance.

The Group's BOD has overall responsibility for the establishment and oversight of the Group's risk management framework. The BOD has delegated to management the responsibility of developing and monitoring the Group's risk management policies.

The Group's risk management policies are designed to identify and analyze these risks, to set appropriate risk limits and controls, and to monitor the risks and adherence to limits by means of reliable and up-to-date information systems. The Group regularly reviews its risk management policies and systems to reflect changes in markets, products and emerging best practices.

The BOD oversees how management monitors compliance with the Group's risk management policies and procedures and reviews the adequacy of the risk management framework in relation to the risks faced by the Group.

The Group has exposure to the following risks from its use of financial instruments:

- Credit Risk
- Liquidity Risk
- Market Risk

This note presents information about the Group's exposure to each of the above risks, the Group's objectives, policies and processes for measuring and managing risks, and the Group's management of capital.

#### *Credit Risk*

Credit risk represents the risk of loss the Group would incur if counterparties failed to perform their contractual obligations. The Group has established controls and procedures in its credit policy to determine and to monitor the credit worthiness of customers and counterparties. The carrying amount of each financial asset represents the Group's maximum credit exposure.

The Group's aging per class of financial assets is as follows:

	Neither Past Due nor Impaired	Past Due but not Impaired			Past Due and Impaired	Total
		1 to 30 Days	31 to 60 Days	More than 60 Days		
<b>December 31, 2023</b>						
<b>Cash and Cash Equivalents</b>						
Cash in banks	P3,788,997,572	P -	P -	P -	P -	P3,788,997,572
Short-term placements	6,100,434,467	-	-	-	-	6,100,434,467
<b>Receivables</b>						
<b>Accrued</b>						
Power receivables	23,622,157,758	8,029,693	4,249,609	27,511,897	120,541,876	23,782,490,833
Due from customers	2,371,353,903	115,986,529	128,215,788	264,940,096	567,780,112	3,448,276,428
Due from officers and employees and other receivables	138,663,332	-	-	-	-	138,663,332
Restructured power receivables	31,486,386	2,223,429	2,223,429	64,360,447	1,382,835,313	1,483,129,004
Interest receivable	3,614,864	-	-	-	311,358	3,926,222
Other accounts receivable	1,412,909,900	-	-	-	-	1,412,909,900
<b>Prepaid Expenses and Other Current Assets</b>						
Advance payment to suppliers and contractors	15,951,538,965	-	-	-	-	15,951,538,965
	P53,421,157,147	P126,239,651	P134,688,826	P356,812,440	P2,071,468,659	P56,110,366,723

	Neither Past Due nor Impaired	Past Due but not Impaired			Past Due and Impaired	Total
		1 to 30 Days	31 to 60 Days	More than 60 Days		
December 31, 2022						
Cash and Cash Equivalents						
Cash in banks	P3,673,009,184	P -	P -	P -	P -	P3,673,009,184
Short-term placements	1,161,934,720	-	-	-	-	1,161,934,720
Receivables						
Power receivables	4,523,494,983	6,250,661	8,699,356	9,189,467	120,043,847	4,667,678,314
Due from customers	2,802,051,088	210,157,056	150,702,799	527,347,220	503,608,140	4,193,866,303
Due from officers and employees and other receivables	148,302,680	-	-	-	-	148,302,680
Restructured power receivables	76,139,730	-	-	31,744,420	1,382,835,314	1,490,719,464
Interest receivable	198,154	45,626	-	-	311,358	555,138
Other noncurrent accounts receivables	1,007,927,847	-	-	-	-	1,007,927,847
Prepaid Expenses and Other Current Assets						
Advance payment to suppliers and contractors	18,158,857,110	-	-	-	-	18,158,857,110
	P31,551,925,496	P216,453,343	P159,402,155	P568,281,107	P2,006,798,659	P34,502,860,760

The Group generally applies lifetime ECL, except for cash and cash equivalents, to financial assets which substantially comprise power receivables and other short-term balances. The Group applies 12-month ECL on cash and cash equivalents.

*Credit Risk Concentration.* The Group's exposure to credit risk arises from default of counterparty. Generally, the maximum credit risk exposure of receivables is its carrying amount without considering collaterals or credit enhancements, if any. The Group has no significant concentration of credit risk since the Group deals with a large number of customers. The Group does not execute any credit guarantee in favor of any counterparty.

*Credit Quality.* In monitoring and controlling credit extended to counterparty, the Group adopts a comprehensive credit rating system based on financial and non-financial assessments of its customers. Financial factors being considered comprised of the financial standing of the customer while the non-financial aspects include, but are not limited to, the assessment of the customer's nature of business, management profile, industry background, payment habit and both present and potential business dealings with the Group.

a) **Cash and Short-term Placements**

Cash in banks and short-term placements are deposited to banks that qualify as universal and commercial banks as defined by the Philippine Banking System.

b) **Receivables Neither Past Due nor Impaired**

These refer to accounts of satisfactory financial capability, credit standing and collectability.

c) **Receivables Past Due but not Impaired**

Past due but not impaired receivables consist mainly of trade receivables which are currently being negotiated for collection with third party customers. Management believes that no provision for impairment losses is required for these receivables as at December 31, 2023 and 2022.

d) **Past Due and Impaired Accounts**

Receivables with an aggregate nominal value of P2.07 billion and P2.00 billion as at December 31, 2023 and 2022, respectively, were assessed to be impaired and hence, provided with allowance. There is a high concentration of credit risk with respect to these customers. These refer to accounts from customers in default due to financial difficulties without clear indication of recoverability and disputed charges already decided by ERC in favor of the customers. These accounts are in default and assessed as delinquent.

*Cash and Cash Equivalents*

The Group does not expect material ECL on cash in banks and cash equivalents as these financial assets are deposited with universal and commercial banks with good credit ratings and are either payable on demand or have very short maturities.

*Receivables and Contract Assets*

The Group estimates ECL for power receivables, due from customers, and accrued transmission revenue by applying both collective assessment and assessment of specific customers, considering what is appropriate under the circumstances.

For the collective assessment, the Group used a provision matrix to separate customer segments sharing common credit risk characteristics. ECLs are calculated based on the probability of a receivable progressing through successive stages of delinquency until finally determined uncollectible. Loss rates are based on the actual credit loss experience over twelve (12) months. The Group has assessed and currently does not expect that the effects of any adjustment for forecasts of future economic conditions could be material considering that power receivables have short credit terms and ordinarily collected substantially within one month. The collective assessment excludes specific customer balances with circumstances that are deemed not representative of the credit risk exposure of a group.

For specific customers that are separately assessed, circumstances specific to the customer are considered in estimating cash flows for ECL measurement, including historical experience with the customer, its current financial condition, and where billing disputes are involved, the status of ERC cases and court cases.

The Group assessed that no material ECL is required for current receivables as at December 31, 2023 and 2022. As at December 31, 2023, the Group recognized total impairment allowance amounting to P2.07 billion attributable to and covers substantially all noncurrent receivables. There is no material difference between the estimated ECL provision required for the year 2023 and the P64.67 million recognized by the Group based on the forecast bad debts provided in the Final Determination approved by ERC.

#### *Liquidity Risk*

Liquidity risk is the risk that the Group will have difficulty in meeting its financial obligations as they fall due.

As part of the Group's prudent liquidity risk management policies and procedures, management monitors rolling forecasts of the Group's liquidity reserve on the basis of expected cash flows. Financing requirements for working capital, loan repayments, and capital expenditures are reviewed on a monthly basis. Results of management's review are reported to the Board on a regular basis.

The Group's ability to make payments on its indebtedness and to fund its operations depend on its future performance and financial results, which to a certain extent, are subject to general economic, financial, competitive and interest rate environment that are beyond its control. The Group projects monthly cash flows from operating, investing and financing activities and evaluates actual cash flow information to ensure that the immediate requirements of the Group are attended to.

The contractual maturities of financial liabilities including estimated payments as at December 31, 2023 and December 31, 2022 are as follows:

		As at December 31, 2023			
	Note	Carrying Amount	Contractual Cash Flow	Less than 1 Year	More than 1 Year
Non-derivative financial liabilities:					
Trade and other current payables*	15	P32,789,061,574	P32,789,061,574	P32,789,061,574	P -
Concession fee payable	5	54,319,128,352	54,319,128,352	4,424,182,400	49,894,945,952
Loans payable (current and noncurrent)	14	193,508,129,737	248,331,654,645	34,865,417,511	213,466,237,134
Customers' and other deposits		441,061,701	441,061,701	-	441,061,701
Other current liabilities**	16	14,540,462,154	14,540,462,154	14,540,462,154	-
Other noncurrent liabilities**	16	171,197,745	171,197,745	-	171,197,745
		P295,769,041,263	P350,592,566,171	P86,619,123,639	P263,973,442,532

\*excluding payables to government.

\*\*excluding advances for construction.

		As at December 31, 2022			
	Note	Carrying Amount	Contractual Cash Flow	Less than 1 Year	More than 1 Year
Non-derivative financial liabilities:					
Trade and other current payables*	15	P31,816,953,388	P31,816,953,388	P31,816,953,388	P -
Concession fee payable	5	54,319,128,352	54,319,128,352	-	54,319,128,352
Loans payable (current and noncurrent)	14	167,091,500,614	191,028,440,343	31,607,846,581	159,420,593,762
Customers' and other deposits		422,698,651	422,698,651	-	422,698,651
Other current liabilities**	16	13,142,947,288	13,142,947,288	13,142,947,288	-
Other noncurrent liabilities**	16	244,966,561	244,966,561	-	244,966,561
		P267,038,194,854	P290,975,134,583	P76,567,747,257	P214,407,387,326

\*excluding payables to government.

\*\*excluding advances for construction.

### Market Risk

Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates and other market prices, will affect the Group's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters while optimizing the return. The Group is subject to various risks, including foreign currency and interest rates.

### Foreign Currency Exchange Risk

Foreign currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates.

The Group's foreign currency exchange risk for the years ended December 31, 2023 and 2022 pertains to its cash in banks, prepaid expenses and other current assets, trade and other liabilities denominated in US dollar, Euro, NZD, JPY and IDR.

The Group regularly monitors outstanding financial assets and liabilities in foreign currencies and maintains them at a level responsive to the current exchange rates so as to minimize the risks related to these foreign currency denominated assets and liabilities.

Information on the Group's foreign currency denominated assets and liabilities and their Philippine peso equivalent are as follows:

	December 31, 2023					
	U.S. Dollar	Euro	NZD	JPY	IDR	Peso Equivalent
<b>Assets</b>						
Cash and cash equivalents	726,347	-	-	-	-	40,360,948
Advance payment to suppliers and contractors	150,764,567	198,628	-	-	-	8,389,745,122
	151,490,914	198,628	-	-	-	8,430,106,070
<b>Liabilities</b>						
Accounts payable and accrued expenses*	(430,266,084)	(3,206,207)	(3,261)	(906,691,978)	(27,500,000)	(24,493,676,890)
<b>Net foreign currency-denominated asset (liabilities)</b>	<b>(278,775,170)</b>	<b>(3,007,579)</b>	<b>(3,261)</b>	<b>(906,691,978)</b>	<b>(27,500,000)</b>	<b>(16,063,570,820)</b>

	December 31, 2022					
	U.S. Dollar	Euro	NZD	JPY		Peso Equivalent
<b>Assets</b>						
Cash and cash equivalents	1,306,477	-	-	-	-	73,319,486
Advance payment to suppliers and contractors	167,879,292	(64,405)	-	-	-	9,417,550,277
	169,185,769	(64,405)	-	-	-	9,490,869,763
<b>Liabilities</b>						
Accounts payable and accrued expenses*	(408,967,721)	(2,526,018)	(3,261)	(2,673,843,462)		(24,217,681,955)
<b>Net foreign currency-denominated asset (liabilities)</b>	<b>(239,781,952)</b>	<b>(2,590,423)</b>	<b>(3,261)</b>	<b>(2,673,843,462)</b>		<b>(14,727,012,192)</b>



With the translation of these foreign currency denominated assets and liabilities, the Group reported net foreign exchange gain (loss) of P116.89 million and (P905.87) million in 2023 and 2022, respectively.

The following are the closing exchange rates applied as at December 31, 2023 and 2022:

	USD	Euro	SGD	NZD	JPY	IDR
2023	55.567	61.4738	42.0898	35.1739	0.3930	0.0036
2022	56.120	59.5545	41.5796	35.4061	0.4174	37.8024

*Sensitivity Analysis.* The following table demonstrates the sensitivity to a reasonably possible change in the exchange rates, with all other variables held constant, of the Group's net income and equity:

December 31, 2023			
	Strengthening/ Weakening of the Philippine Peso	Effect on Profit	Effect on Equity
US Dollar	+10%	1,549,069,984	(1,549,069,984)
	-10%	(1,549,069,984)	1,549,069,984
JPY	+10%	38,776,995	(38,776,995)
	-10%	(38,776,995)	38,776,995
NZD	+10%	11,470	(11,470)
	-10%	(11,470)	11,470
EURO	+10%	18,488,733	(18,488,733)
	-10%	(18,488,733)	18,488,733
IDR	+10%	9,900	(9,900)
	-10%	(9,900)	9,900

December 31, 2022			
	Strengthening/ Weakening of the Philippine Peso	Effect on Profit	Effect on Equity
U. S. Dollar	+10%	1,345,656,313	(1,345,656,313)
	-10%	(1,345,656,313)	1,345,656,313
JPY	+10%	111,606,226	(111,606,226)
	-10%	(111,606,226)	111,606,226
NZD	+10%	11,546	(11,546)
	-10%	(11,546)	11,546
EURO	+10%	15,427,134	(15,427,134)
	-10%	(15,427,134)	15,427,134

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

The Group manages its interest cost by using an optimal combination of fixed and variable rate debt instruments. The management is responsible for monitoring the prevailing market-based interest rate and ensures that the mark-up rates charged on its borrowings are optimal and benchmarked against the rates charged by other creditor banks.

#### Capital Management

Management's objectives in managing capital are to safeguard the ability of the Group to operate as a going concern, ensure that it has sufficient cash flows to service long-term debt, and to satisfy both maturing short-term debt and upcoming operational expenses, thereby providing returns to shareholders and other stakeholders.

Capital is defined as the Group's capital stock, additional paid-in capital and retained earnings.

Management uses debt-to-equity ratio to monitor and review, on a regular basis, the Group's capital.

There were no changes in the Group's approach to capital management during the year.

The Group, through NGCP has to meet Debt to Equity Ratio required by the concession agreement. For the years ended December 31, 2023 and 2022, the Group is in compliance with these requirements.

#### Fair Values

The Group analyzes financial instruments carried at fair value by valuation method as at December 31, 2023 and December 31, 2022. The different levels have been defined as follows:

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly.
- Level 3: inputs for the asset or liability that are not based on observable market data.

As at December 31, 2023 and December 31, 2022, the Group's derivative financial asset and liability were measured based on Level 2 classification.

As at December 31, 2023 and December 31, 2022, the Group has no financial instruments valued based on Levels 1 and 3 and has not introduced any movement among Levels 1, 2 and 3 classifications.

The following summarizes the major methods and assumptions used in determining the fair values of financial instruments:

*Cash and Cash Equivalents, Receivables, Trade and Other Current Payables and Other Current Liabilities.* The carrying amounts of these financial assets and financial liabilities approximate fair values primarily due to the relative short-term nature/maturities of these financial instruments.

*Receivables - Net of Current Portion and Customers and Other Deposits.* These accounts are reported at their carrying amounts which approximates its amortized cost as the impact of discounting is immaterial. Carrying amounts approximates the cash amounts that would be settled at reporting date.

*Concession Fee Payable and Loans Payable.* The carrying value of interest-bearing concession fee payable and loans payable is the present value which approximates the cash amount that would be fully settled as at reporting date. These are classified as current liabilities when they become payable within twelve (12) months from the reporting date.

## 25. Contingencies

The Group, in the ordinary course of business, is a party to certain cases or claims under protest pending with administrative bodies or the courts, including but not limited to those set out below, the outcome of which are not presently determinable.

### a. Civil Cases

NGCP is a defendant in an Arbitration case filed by Kalpataru Power Transmission Limited (KPTL) before the Construction Industry Arbitration Commission (CIAC) where the Arbitral Tribunal awarded damages in favor of KPTL, as follows:

PROJECT	DAMAGES		
	₱	USD	INR
Abaga-Kirahon	28,749,664	93,041	1,329,869
Kirahon-Maramag	16,658,168	77,369	2,333,347
Ormoc-Babatngon	27,053,362	-	394,743

Moreover, the Arbitral Tribunal also directed NGCP to release the Retention Money previously withheld by NGCP from the payments to KPTL, as follows:

PROJECT	RETENTION MONEY	
	₱	USD
Abaga-Kirahon	30,000,000	2,000,000
Kirahon-Maramag	21,929,714	143,563

NGCP filed a Petition for Review with the Court of Appeals assailing the erroneous award and also posted a bond before the CIAC in an amount equal to the award in order to restrain the implementation of the Final Award pending the resolution of NGCP's Petition. In its Decision dated June 29, 2018, the Court of Appeals deleted all the actual damages granted by the Arbitral Tribunal in favor of Kalpataru but ordered NGCP to release the retention money to Kalpataru. The June 29, 2018 Decision of the Court of Appeals is now subject of separate Petitions for review by NGCP and Kalpataru before the Supreme Court which is pending resolution.

In a case involving customer High Street (SPV-AMC), Inc., (High Street) concerning the manner of calculating the transmission charge of High Street, NGCP filed on March 10, 2022 a Motion (to remand the Case) before the Supreme Court requesting that case be remanded to the Energy Regulatory Commission (ERC) for proper disposition, particularly, on the implementation and computation of the billing due from High Street consistent with the Decision and Resolution of the Court of Appeals, as affirmed by the Supreme Court, declaring the non-coincident peak demand (NCPD) as the correct billing determinant in the computation of transmission charges of High Street, Inc. Consequently, on September 9, 2022, NGCP filed with the Supreme Court a Reiteratory Motion praying that case be remanded to the ERC to implement and compute the billing due from High Street. On November 2, 2022, the 1st Indorsement of the Supreme Court to the Court of Appeals - the case was remanded to CA on June 14, 2021. And on December 12, 2022, NGCP received the CA letter transmitting the records of the case to ERC for proper disposition. Hence, on March 9, 2023, NGCP filed with the ERC its Motion to Set the Case for hearing to finally determine the billings of High Street in relation to the Supreme Court ruling. Said motion is pending action by the ERC.

NGCP is the Plaintiff in the case of NGCP vs Posadas docketed as Civil Case No. 14-2547-M for Quieting of Title with Prayer for the issuance of Writ of Preliminary Injunction and/or TRO filed before the RTC Branch 80 of Morong Rizal. On June 30, 2022, NGCP received the hard copy of the Decision dated June 20, 2022 dismissing the quieting of title, partially granting counterclaims of defendants such as P500,000 temperate damages, P100,000 exemplary damages, P25,000 Attorney's fees and setting aside the writ of preliminary injunction case of NGCP. On July 15, 2022, NGCP through external counsel filed a Motion for Reconsideration of the Decision dated June 20, 2022. On August 23, 2022, NGCP received the Order dated August 12, 2022 denying NGCP's Motion for Reconsideration dated July 15, 2022. On August 26, 2022, NGCP filed a Notice of Appeal assailing the Decision dated June 20, 2022. NGCP is still awaiting action on the appeal.

NGCP is the Plaintiff in the case of NGCP vs Bulcio et al. docketed as Civil Case No. 19-CV-3500 for the issuance of Writ of Preliminary Injunction with TRO filed before the RTC Branch 10 of La Trinidad, Benguet. Defendants prayed for the dismissal of the complaint as well as P50,000 for moral damages, P500,000.00 for exemplary damages and P20,000 cost of litigation expenses. On April 27, 2022, NGCP received the Memorandum of defendants. On May 18, 2023, NGCP received the decision dismissing the complaint. On July 14, 2023, NGCP received a resolution denying MR of NGCP. On 08 August 2023, NGCP received an order finding the Notice of Appeal by NGCP filed within the reglementary period and immediately transmitting records of the case to CA. NGCP is still waiting for the CA's action on the appeal.

NGCP is the Defendant in the case of Melanie Villarao vs NGCP docketed as Civil Case No. II-6665 for Damages based on Quasi-delict before the RTC Branch 08 of Aparri, Cagayan. Plaintiff prayed for incurred medical and other related expenses in the total amount of P8,019,498.39 consisting of P1,050, funeral expenses of P92,700, Loss of earning capacity of P6,425,748.38 P1,000,000 for moral damages, and P500,000 for exemplary damages. During the mediation, Plaintiff manifested that she is willing to amicably settle the case with the following proposals: (1) NGCP will give/indemnify the Plaintiff half or 50% of 8M, the total amount of damages prayed for; (2) Health Insurance will be provided to the Plaintiff's only child at the expense of NGCP. NGCP is still studying the proposed settlement. NGCP did not accept the proposal for being unconscionable and not within the ambit of the company policy. The case proceeded and pending trial.

NGCP is the Defendant in the case of Leonardo San Pedro vs NGCP represented by Rodolfo Ilarde Jr. docketed as Civil Case No. 3333 for Removal of Structures and Damages before the MTCC Branch 03 of Tuguegarao City, Cagayan. Plaintiff prayed for the removal of electrical posts and payment of P50,000 cost of litigation expenses, P50,000 for Attorney's Fee and P50,000 for exemplary damages as well as payment of the cost of suit. The case is pending trial.

NGCP is the Plaintiff in the case of NGCP vs Sps. Manolo Hernal and Mildred Villaroman-Hernal docketed as Civil Case No. 6740-AF for the issuance of Writ of Preliminary Injunction with TRO filed before the RTC Branch 30, Cabanatuan City. Per Unified Commissioner's Report, the total assessed value of the subject properties affected by the transmission lines is P11,586,400. The parties filed their respective memorandum. This case is now pending for resolution of the Court.

NGCP is the Defendant in the case of Heirs of Miguel D. Guansing Et. Al. vs TRANSCO and NGCP docketed as Civil Case No. 180-M-2021 for Inverse Condemnation before the RTC Branch 19 of Malolos, Bulacan. Plaintiffs prayed for payment of just compensation for the alleged area occupied by the transmission lines and Attorney's fees of P50,000 including all litigation expenses and cost of suit. The case is scheduled for pre-trial.

NGCP is the Defendant in the case of Angel Tan Chua vs NPC, PSALM, NTC and NGCP docketed as Civil Case No 352-M-2022 for Just Compensation before the RTC Branch 15 of Malolos Bulacan. Plaintiff prayed for just compensation for the alleged affected area in total area of 37,261 square meters and consequential damages of no less than P1,000,000,000, P500,000 for exemplary damages, P200,000 for attorney's fees and the cost of litigation. The case is set for pre-trial.

NGCP is the Defendant in the case of Sps. Jeoffrey and Novelie Pascua et al vs NTC and NGCP docketed as Civil Case No. U-11767 for Inverse Condemnation before the RTC, Branch 49 of Urdaneta City, Pangasinan. Plaintiffs prayed for just compensation in the total amount of P117,987,750 as provisional compensation for alleged areas occupied by the transmission lines and attorney's fees amounting to P60,000, hearing expenses of P25,000 as well as litigation expenses and cost of suit. Upon motion of NGCP the case was dismissed with Prejudice during Pre-trial on October 12, 2023. The dismissal may be appealed by the Plaintiffs. No further development on this case as of report date.

NGCP is the Respondent in the case of Phirst Park Homes, Inc. vs NGCP Et Al. docketed as Civil Case No. 57-M-2023 for Indirect Contempt before the RTC Branch 82 of Malolos, Bulacan. Plaintiff prays to impose appropriate fines and imprisonment in accordance with law against respondents. The case was transferred and consolidated to under Civil Case No. 221-M-2022 before the RTC, Br. 12 (121) Meycauayan Bulacan, where the case for expropriation is being heard.

There are several other cases for ejectment, damages, recovery of possession, and other cases of civil in nature filed by and against NGCP and pending with the different courts and quasi-judicial bodies nationwide. The total estimated amount of claim against NGCP for these civil cases is P1.168 billion, for which NGCP has made deposits (Note 13).

**b. Revenue Applications**

On December 22, 2022, NGCP filed its revenue application for the 4<sup>th</sup> Regulatory Period (2016-2020). In the Application, NGCP proposed its Annual Revenue Requirement for the years 2016 to 2020 for the ERC's approval. The Application is already submitted for resolution as of date (see Note 27).

On March 30, 2023, NGCP filed its revenue application for the 5<sup>th</sup> Regulatory Period (2021-2025) and hearing of the Application is on-going.

On December 4, 2023, NGCP also filed a Petition with the Supreme Court seeking for the nullification of Art. IV of the 2022 Rules for Setting of Transmission Wheeling Rates. The Petition will have an impact on the on-going 4<sup>th</sup> and 5<sup>th</sup> RP applications. The Supreme Court has yet to act on the Petition filed.

c. Show Cause Orders

There are also forty-seven (47) pending cases arising from show cause orders (SCOs) issued by the ERC. These SCOs involve allegations of possible violations of the Philippine Grid Code (PGC), the Ancillary Services Procurement Plan (ASPP), the 2021 DOE AS-CSP Circular, the Rules for Setting Transmission Wheeling Rates (RTWR), Commonwealth Act No. 146, and the Republic Act No. 9136, and various ERC Orders and Decisions involving CAPEX applications.

In one SCO (ERC Case No. 2022-129 to 131 SC), after NGCP has filed its Explanation, the ERC issued a Decision and ruled that NGCP violated the 2021 DOE AS-CSP Circular and meted out a penalty in the amount of P5.1M. NGCP timely filed a Motion for Partial Reconsideration of the Decision and paid the penalty imposed with reservation. Said motion is pending resolution. However, on May 17, 2023 NGCP received Order stating that Commissioner did not receive the NGCP's Motion for Reconsideration of the Decision dated October 27, 2022 and that the said case is being closed and terminated. NGCP filed on the following day, May 18, 2023, the Urgent Motion to Withdraw/Recall the said Order. This case is still pending for Resolution.

NGCP has also timely filed its Explanation on various dates for the other SCOs which are pending resolution, the more recent of which was on July 29, 2023 when NGCP filed a Compliance [Submission of Written Justifications in compliance with the Order dated 14 June 2023] dated July 28, 2023 in ERC Case No. 2023-196 to 232 SC. No further development on these cases as of report date.

d. Tax Cases

In the case of National Grid Corporation of the Philippines NGCP vs. Ofelia M. Oliva, G.R. No. 213157, August 10, 2016, and Ofelia M. Oliva vs. National Grid Corporation of the Philippines, G.R. No. 213558, August 10, 2016 (Oliva case), the Supreme Court ruled that NGCP is exempt from payment of real property tax on properties used in connection with its franchise. The cases were remanded to the Central Board of Assessment Appeals (CBAA), Case No. V-31, and on April 10, 2019, the CBAA ruled that the maintenance office and warehouse buildings are used in connection with NGCP's franchise. However, the Supreme Court also ruled in the Oliva cases that NGCP cannot ask for refund from the Cebu City Government for the taxes it paid from 2001-2008 in the amount of P2.79 million but shall take its relief from NPC/TransCo. NGCP may only ask for reimbursement from the City of Cebu the amount paid in excess of the correct tax that should have been collected if the tax is computed applying the 10% assessed value for the period 2001-2008, and refund of the amount paid for the year 2009. Likewise, in another similar case, NGCP vs Local Board of Assessment Appeals (LBAA) and the City Treasurer of Cebu, CBAA Case No V-35, the CBAA recognized NGCP's exemption from payment of real property tax pursuant to the Supreme Court decision in the Oliva case and ordered the refund of taxes paid for the year 2009 on two office buildings used in the Talamban substation. The refund of the taxes paid in both cases are still under negotiation with the City of Cebu.

NGCP obtained another favorable Resolution, dated June 23, 2021, from the Supreme Court in the consolidated cases docketed as G.R. Nos. 218289-90 (NGCP vs. CBAA, LBAA of Cabanatuan City and Ms. Heidi Pangilinan, in her capacity as City Assessor of Cabanatuan and NGCP vs. CBAA, LBAA of Cabanatuan City and Ms. Florida Oca, in her capacity as the City Treasurer of Cabanatuan City). NGCP questioned the assessment issued by the Assessor of Cabanatuan City in the first case; while in the second case, NGCP paid under protest the real property tax in the amount of P3.82 million for the period 2009 to 2010. In its Resolution, the Supreme Court reiterated its ruling in the case of NGCP vs. Oliva that NGCP is exempt from payment of real property tax on properties that are used for electric power transmission. As in the Oliva case, the SC ordered to remand the cases to the CBAA to determine the actual use of subject machineries, buildings and lands for the purpose of resolving the merits of NGCP's claim for exemption from paying the real property taxes. The CBAA rendered its decision on 23 January 2023 granting NGCP's exemption from payment of Real Property Taxes effective taxable year 2009 and the City of Cabanatuan was ordered to issue revised tax declarations on the subject properties with annotation tax exempt and to refund the Real Property Taxes for taxable year 2009-2010 in the total amount of P3,817,898.70. Likewise, the City of Cabanatuan was ordered to cancel subsequent assessments and collection of real property taxes inclusive of penalties on the subject properties. The City of Cabanatuan filed a Motion for Reconsideration of the decision, but this was denied by the CBAA. A Petition for Review was then subsequently filed by the City of Cabanatuan and now pending before the CTA.

In the case of NGCP vs. Fatima Tenorio, et al, the CTA in its Decision dated April 26, 2017, dismissed the Petition filed by NGCP for failure to pay the tax under protest. However, since a similar case involving the same properties is also pending before the LBAA of Ilocos Sur, NGCP subsequently paid the real property tax under protest in the amount of P10.17 million. NGCP then filed another Petition before the LBAA on November 5, 2018, contesting the collection and payment of the tax. The cases are still pending before the LBAA.

Likewise, in NGCP vs. the OIC, Provincial Assessor of South Cotabato and the Municipal Assessor of Tupi, South Cotabato, a case involving properties with assessed value of P78.89 million was dismissed on appeal by the CTA in its Decision dated 27 February 2018 for failure to pay the tax under protest. This was brought to the Supreme Court by way of Petition for Review, docketed as G.R. No. 241105. A Reply to the Comment of Respondents to NGCP's Petition for Review dated January 3, 2019, was filed by NGCP on September 16, 2020. On 24 August 2023, NGCP received Resolution dated 27 March 2023 *requiring parties to file a Manifestation as to the subsequent development that may help the disposition of the case. Hence, on 08 September 2023 NGCP filed a Manifestation informing the Supreme Court of a pending negotiation for settlement by the parties.*

Also, in the case of NGCP vs. LBAA of Batangas City and Guadalupe Judy Tumambing, City Assessor of Batangas City, involving properties with assessed value of P1.40 million, the Supreme Court dismissed the Petition for Review filed by NGCP in a Resolution dated February 28, 2022. NGCP subsequently filed a Motion for Reconsideration of said Resolution on March 15, 2022 praying, among others, that the properties involved be classified as exempt from the payment of RPT in the Assessment Roll. On July 13, 2022, NGCP received a Resolution denying its Motion for Reconsideration. The subject properties are now the subject of pending verification by South Luzon O&M for possible payment under protest of the assessed real property taxes.

With regards to the pending Petition for Injunction with TRO (NGCP vs. The Province of Cebu, et al. (Declaratory Relief with Prayer of Cancellation of TDs, with Urgent Application for TRO and/or Preliminary Injunction) against the collection of RPT in the amount of P192million filed with the Regional Trial Court Regional Trial Court (RTC) of Cebu, the parties already submitted their respective Memoranda on July 19, 2019, and the case is still pending for resolution.

On October 12, 2020, NGCP received a copy of the CTA Decision, dated September 23, 2020, in CTA EB No. 2110 (City Assessor's Office of Valenzuela City vs. NGCP) reversing and setting aside the Decision dated August 22, 2012, of the LBAA and the October 8, 2018 Decision and May 31, 2019 Resolution of the CBAA. The CTA declared the Notice of Assessment dated October 9, 2012, as final, executory and unappealable. On October 23, 2020, NGCP filed its Motion for Reconsideration. Thereafter, NGCP received on October 23, 2020, the Statement of Account issued by the City Treasurer on the 37 machineries/transmission towers subject of the case in the total amount of P421.75 million. On October 30, 2020, NGCP wrote a letter and requested the City Treasurer and City Assessor the following: (a) refer to TransCo the notice of delinquency for real property tax covering years 2002 to 2008; (b) classify the 37 machineries/transmission towers, as exempt from payment of real property tax from year 2009 onwards; and (c) issue revised tax declarations on 37 machineries/transmission towers and indicate thereon that NGCP is the beneficial user of the same and to re-classify said properties from taxable to exempt. On June 28, 2021, NGCP received the CTA Resolution dated June 2, 2021, denying NGCP's Motion for Reconsideration. NGCP filed Petition for Review dated July 13, 2021, which it is still pending resolution before the Supreme Court.

Under Civil Case No. R-QZN-21-07791, entitled NGCP vs. City Government of Quezon City, the RTC-QC Branch 225 in its Resolution dated September 8, 2022, dismissed due to lack of merit NGCP's Petition questioning the assessment issued by the LGU of Quezon City for the year 2021 and seeking the refund of the amount of P21.98 billion which NGCP paid under protest. The RTC subsequently denied NGCP's Motion for Reconsideration (MR). NGCP filed Petition for Review with CTA on October 19, 2022, and was ordered to submit Memorandum for Resolution. NGCP filed its Memorandum on March 10, 2023, and the case is now submitted for Decision.

In the case of NGCP vs. City Government of Santiago Isabela, represented by Hon. Joseph S. Tah as the City Mayor and Atty. Artemio R. Villaluz Jr., as the City Licensing Officer and Ms. Elizabeth Casabar, City Treasurer of Santiago City, NGCP received a favorable Decision dated 31 March 2023 granting NGCP's exemption from the payment of franchise tax and other regulatory fees in the amount of P60. 61 million and no appeal has been made by the other party.

On May 12, 2023, a new Petition was filed before the RTC of Quezon City (NGCP vs. The City Government of Quezon City) under Civil Case No. R-QZN-045425 CV relative to the Appeal of Assessment and Claim for Refund of Business Tax in the amount of P26.53 million. The case is now pending before the RTC-QC Branch 230.



On June 21, 2023, another Petition was filed before the MTCC Branch 1 - Davao City entitled NGCP vs. City Government of Davao City, as represented by Atty. Lawrence D. Batinding, in his official capacity as City Treasurer of Davao involving an Appeal of Assessment and Claim for Refund of Business Tax and other regulatory fees in the total amount of P184,941.60. The case is now pending before the MTCC-Davao City.

With the ruling of the Supreme Court in Oliva cases, Cabanatuan City cases and BLGF Memorandum Circulars and letters confirming NGCP's exemption from RPTs, local franchise tax and business taxes, NGCP is continuously and actively asserting its exemption on all properties used in connection with its franchise and is pro-actively negotiating with various LGUs for the recognition of its exemption, and for the refund of all real property taxes paid under protest. Constant communication and coordination meetings and negotiations with the various LGUs are being conducted all year round for this purpose.

As of December 31, 2023, NGCP obtained three thousand eight hundred ninety-one (3,891) tax exemptions covering lands, buildings and machineries located in various cities, municipalities, provinces with assessed value in the total amount of P11.67 billion.

As of December 31, 2023, NGCP has a total of ninety-eight (98) RPT, franchise and business tax cases pending before the LBAA, CBAA, RTC, Municipal Trial Court in Cities (MTCC), the CTA and the Supreme Court, broken down as follows:

(i) Real Property Tax cases:

- a. forty-eight (48) cases pertain to Petition filed contesting the Notices of Assessment issued by the Provincial or City Assessors involving properties with total assessed value of P13.13 billion; and
- b. thirty-eight (38) cases with Payment Under Protest contesting the Statements of Account or Billings issued by the Provincial or City Treasurers in the total amount of P47.57 million.

(ii) Franchise/ business tax cases:

- a. one (1) case pertains to Petition filed contesting the assessment for Franchise/Business Taxes and Fees issued by the Provincial or City Municipal Treasurers with total amount of P2.0 million; and
- b. eleven (11) cases with Payment Under Protest contesting the assessment for Franchise/Business Taxes and Fees issued by the Provincial or City or Municipal Treasurers in the total amount of P242.9 million.

(iii) Suspension of pass-on of Franchise Tax

On 15 August 2023, the ERC promulgated Resolution No. 10, Series of 2023 (the "2023 ERC Resolution"), entitled "*A Resolution Suspending the Inclusion of the National Franchise Tax of the National Grid Corporation of the Philippines (NGCP) in the Total Monthly Transmission Cost Billing of Distribution Utilities.*" Citing *Republic v. Manila Electric Company ("MERALCO")* and *Maynilad Water Services, Inc. v. National Water and Resources Board, et al. ("Maynilad")*. NGCP submitted a letter of reconsideration on 24 August 2023, and same is still pending resolution before the ERC.

e. Right of Way (ROW) Expropriation Cases

Pursuant to R.A. No. 9511, NGCP is authorized to exercise the right of domain insofar as it may be reasonably necessary for the construction, expansion, and efficient maintenance of the transmission system and grid. Thus, NGCP may acquire private property as is actually necessary for the realization of the purposes for which its franchise (R. A. 9511) was granted.

With regard to the expropriation case filed by NGCP against SSS for the acquisition of the site for the Pasay 230kV Substation Project, on March 12, 2020, NGCP filed an Omnibus Motion to Withdraw Complaint and Provisional Deposit amounting to P1.46 billion with RTC-Pasay City which is currently for resolution of Court of Appeals.

One of the relevant expropriation cases filed on May 06, 2016 by NGCP is NGCP v. Social Security System (SSS), a government-owned and -controlled corporation, for the acquisition of the site for the Pasay 230kV Substation Project. An Omnibus Motion to Withdraw Complaint and Provisional Deposit in the amount of P1.46 billion was filed with the Regional Trial Court of Pasay City (RTC-Pasay) on March 12, 2020. However, the resolution was deferred since the records of the case were forwarded and still with the Supreme Court. Unfortunately, hearings of the court were suspended due to Covid 19 Pandemic at the start of March 2020.

On January 22, 2021, NGCP filed with the Supreme Court a Motion to Enforce the Court's Order to remand the records of the case to RTC-Pasay. On March 18, 2021, NGCP's Motion to Enforce Court Order was granted by the Supreme Court. Consequently, the records were transmitted to the RTC-Pasay on July 13, 2021. The Omnibus Motion to Withdraw Complaint and Provisional Deposit was granted by the RTC-Pasay after the hearing on July 21, 2021. NGCP filed a Partial Motion for Reconsideration regarding the interest on the provisional deposit which was denied by the said court in its Order dated November 5, 2021.

NGCP filed a Notice of Appeal on December 10, 2021. The provisional deposit's principal amount of P1.46 billion was withdrawn by NGCP on December 22, 2021. On November 07, 2022, NGCP received a *Notice to File Brief* dated September 17, 2022, from the Court of Appeals, requiring the Company to file its Appellant's Brief within 45 days from receipt of the said Notice. On December 22, 2022, the Appellant's Brief praying for the release of the interest on the P1.46 billion principal amount of provisional deposit was filed. As to date, the resolution of the issue is pending with the Court of Appeals.

As of December 31, 2023, the total number of expropriation cases filed/pending with the Courts, including Projects Under Construction (PUC) cases turned over to the company by the National Transmission Corporation (TRANSCO) is 4,394 with the total estimated amount involved of P10.78 billion (based on provisional deposits).

f. Reclassification Cases

There are six (6) reclassification cases pending before the ERC.

These cases involve assets which are currently not part of NGCP's Regulatory Asset Base (RAB) but are performing transmission functions and therefore, should be transferred to NGCP pursuant to R.A. No. 9136. By law, NGCP is required to pay the current owners of these assets the corresponding fair market price of each asset upon its transfer to NGCP to become part of NGCP's RAB. However, considering that the ERC has not yet issued NGCP's Final Determination for the Fourth and Fifth Regulatory Periods, there are still no approved CAPEX for the acquisition of these assets.

g. Permit Fees

There are six (6) cases pending with the Supreme Court (which were consolidated and will be resolved in one decision) involving ERC's imposition of Fees in relation to approved various CAPEX projects. The issue involved is whether or not NGCP is liable to pay all types of fees taking into consideration the provisions of R.A. No. 9511 which exempts NGCP from paying all other kinds of fees, taxes, and charges in consideration of its payment of the 3% Franchise Tax. The resolution of these cases may not have an impact on NGCP's revenue considering that the ERC considers Permit Fees as part of the capital expense in NGCP's Final Determination. NGCP has paid these permit fees under protest.

NGCP has already obtained favorable decisions from the Court of Appeals where the court declared NGCP exempt from payment of permit fees pursuant to its Franchise. These decisions are now subject of appeals by the ERC with the Supreme Court. There are also motions for reconsideration still pending with ERC where NGCP, upon obtaining approval of CAPEX applications, filed motions relative to the imposition of permit fees.

h. Supervision and Regulation Fees; Metering Authority Fees

Similar to Permit Fees, NGCP is being assessed by the ERC of Supervision and Regulation Fees in the amount of P468.00 million annually and Metering Authority Fees in the amount of P15.00 million every three years upon the renewal of NGCP's authority as the metering service provider. The Supervision and Regulation Fee is required to be paid on or before September 30<sup>th</sup> of each year with a penalty of fifty per centum in case of delinquency; Provided, further, that if the fees or any balance thereof are not paid within sixty days from the said date, the penalty shall be increased one per centum for each month of delinquency thereafter. On the other hand, the metering fee is being assessed by ERC based on the authority granted to NGCP as the WESM metering service provider.

The assessment is based on ERC Resolution No. 21, Series of 2007 entitled 'A Resolution Approving the Revised Schedule of ERC Fees and Charges' which provides that supervision and regulatory fees are for annual reimbursement of the expenses incurred by the ERC in the supervision of electric utilities, transmission companies and/or in the regulation or fixing of their rates. Both the supervision and regulatory fee and metering authority assessment fee are computed at one peso for each one hundred pesos or fraction thereof, of the capital stock subscribed or paid.

NGCP is paying both Fees although under protest on the ground that NGCP should be exempt from payment of these fees pursuant to Section 9 of R.A. No. 9511, which provides that NGCP's payment of 3% franchise tax shall be in lieu of, and expressly exempted from paying all other kinds of fees, taxes, and charges. The resolution of its protest may not have an impact on NGCP's revenue because the ERC considers the Supervision and Regulation Fees as part of the operating expense.

These legal issues are still pending before the Supreme Court for resolution.

i. Labor Cases

There are eighteen (18) labor cases pending before the Supreme Court, Court of Appeals, National Labor Relations Commission, and the Department of Labor and Employment filed either by (i) former NGCP employees against NGCP in different areas/regions for illegal dismissal, with prayer for reinstatement, and payment of backwages and damages or for other money claims; or (ii) by employees of service providers with service contracts with NGCP wherein NGCP was impleaded as co-defendant. The contingent liabilities arising from the labor cases are difficult to estimate considering that in most of the complaints, the monetary claims are not specified by the complainants.

j. Other Cases

There are twenty-two (22) NGCP CAPEX Applications pending with the ERC for approval. Due to urgency of the projects, NGCP filed the CAPEX Applications for approval considering that ERC has not yet issued NGCP's Final Determination for the 4<sup>th</sup> and 5<sup>th</sup> Regulatory Periods.

With regard to the disputes among NGCP, PSALM and TRANSCO, the dispute resolution process has already commenced. NGCP filed with the Singapore International Arbitration Centre ("SIAC") a Notice of Arbitration, docketed as SIAC Case No. ARB044/18/CHB, against PSALM and TRANSCO pursuant to the Arbitration Clause in Section 16 of the Concession Agreement among the parties. The proceedings have already been completed and the case is now for resolution of the arbitral tribunal.

Prior to the constitution of the arbitral tribunal, a Temporary Order of Protection and, subsequently, a Writ of Injunction were issued by the Regional Trial Court of Quezon City to enjoin PSALM and TRANSCO from, among others, declaring NGCP in default of the Concession Agreement. The Writ remains effective until it is modified or revoked by the arbitral tribunal. PSALM and TRANSCO appealed the issuance of the Writ to the Court of Appeals. In its Decision dated September 25, 2019, the Court of Appeals dismissed PSALM's and TRANSCO's appeal for lack of jurisdiction, the arbitral tribunal having already been constituted on April 12, 2018. PSALM and TRANSCO did not elevate this matter to the Supreme Court. They even filed a Manifestation with the Court of Appeals confirming that, after its constitution, the arbitral tribunal could rule on the matter of interim measures.

The Group has other possible claims from or obligations to other parties from past events and whose existence may only be confirmed by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Group.

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## **26. Franchise Tax**

As discussed in Note 1 to the consolidated financial statements, in consideration of the franchise and rights granted by R.A. 9511, the Group is required to pay a franchise tax equivalent to three percent (3%) of all gross receipts/actual collection derived from its operations under the franchise, in lieu of income tax and any and all taxes, duties, fees and charges of any kind, nature or description levied, established or collected on its franchise, rights, privileges, receipts, revenues and profits, and on properties used in connection with its franchise except for real property tax on real estate, buildings and personal property, exclusive of the franchise.

In view thereof, the Group's income from business activities included within the scope of its authority under Section 1 of R.A. 9511 is exempt from income tax, and consequently from withholding taxes, minimum corporate income tax (MCIT), improperly accumulated earnings tax (IAET), Value-Added Tax (VAT) and documentary stamp tax (DST). Subsequently, effective January 1, 2018, the implementation of TRAIN Law has changed the classification of NGCP from non-VAT to VAT entity which made all transactions affected therein to be subject to VAT.

Pursuant to Third Regulatory Period Final Determination under Clause 5.20, ERC Final Decision on Other Taxes, particularly Section 5.20.1 specifically states that "the 3% national franchise tax will not be included in the maximum allowed revenue (MAR) but will be recovered through a surcharge on the Regulated Entity's customers' invoices". NGCP started billing its customers the 3% national franchise tax effective on the billing period December 26, 2010 to January 25, 2011 as approved by the ERC under Resolution No. 07, series of 2011, "A Resolution Allowing the Distribution Utilities to Include Their Monthly Transmission Cost the NGCP's National Franchise Tax Billing." The Group adopted an accounting treatment for franchise tax that upon billing to its customers, both franchise tax receivable and franchise tax payable to BIR are set-up. As such, franchise tax recovery is not recognized in the profit or loss in view of the pass-through nature of the 3% national franchise tax (see Note 15).

On August 8, 2023, ERC issued Resolution No. 10, Series of 2023 entitled, "A Resolution Suspending the Inclusion of the National Franchise Tax of the NGCP in the Total Monthly Transmission Cost Billing of Distribution Utilities". This resolution suspends the passing-on of the 3% national franchise tax by NGCP to its customers and the effectivity of Resolution No. 7, series of 2011 which allowed NGCP to pass on to consumers a 3% franchise tax on gross receipts derived from its operations, is likewise suspended.

On August 23, 2024, NGCP sent the Request for Reconsideration of Suspension of ERC Resolution No. 7 Series of 2011 and withdrawal of ERC Resolution No. 10 Series of 2023. To date, NGCP is yet to receive ERC's resolution on the said request. For the year ended December 31, 2023, the related franchise tax expense amounted to 541.49 million which is part of miscellaneous expense in the "Other Charges - net" in the consolidated statement of income.

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## **27. Final Determination and Others**

"The Final Determination, Regulatory Reset for the NGCP for 2011 to 2015" (Final Determination) was approved by the Energy Regulatory Commission (ERC) on November 22, 2010.

Pursuant to the Electric Power Industry Reform Act (EPIRA) of 2001 and its Implementing Rules and Regulations (IRR), the ERC promulgated the Guidelines on the Methodology for Setting Transmission Wheeling Rates (TWRG) on May 29, 2003, which was subsequently updated and revised on September 16, 2009 as the Rules for Setting Transmission Wheeling Rates (RTWR) for 2003 to around 2027. The RTWR provides for Performance-Based Regulation (PBR) using a revenue cap methodology to determine the maximum rates that may be charged by the Regulated Entity to its customers for the provision of Regulated Transmission Services. The RTWR amends the TWRG which formed the basis for setting the revenue cap of the Regulated Entity. The methodology in the TWRG, now the RTWR, was applied in setting the revenue for Second Regulatory Period (2<sup>nd</sup> RP) of January 1, 2006 to December 31, 2010 and for the Third Regulatory Period (3<sup>rd</sup> RP) of January 1, 2011 to December 31, 2015, with the issuance of the Final Determination on June 13, 2006 and November 22, 2010, respectively.

On September 28, 2022, the ERC issued ERC Resolution No. 08, Series of 2022, *A Resolution Adopting the Amended Rules for Setting Transmission Wheeling Rates (Amended RTWR)*. The Amended RTWR provides, among others, the relevant provisions that would govern the filing of the revenue reset applications of NGCP for the Fourth and Fifth Regulatory Periods (4<sup>th</sup> and 5<sup>th</sup> RP).

Relative to this, on October 27, 2022, NGCP filed an Omnibus Motion in ERC Case No. 2018-004RM, requesting ERC to subject Article IV of the 2022 Amended RTWR to public consultation and public hearings, clarify pertinent provisions and hold in abeyance the regulatory reset process for the 4<sup>th</sup> and 5<sup>th</sup> RP.

In response to NGCP's Petition, in its Order dated November 25, 2022, the ERC denied NGCP's motion to hold in abeyance the regulatory reset process and directed it to file the 4<sup>th</sup> RP Revenue Application within a non-extendable period of fifteen (15) calendar days from the receipt of the issuance and the 5<sup>th</sup> RP Revenue Application by January 19, 2023.

Accordingly, NGCP filed its 4<sup>th</sup> RP Revenue Application on December 22, 2022 under ERC Case No. 2022-089RC entitled, "*In the Matter of the Application of the Maximum Annual Revenue for the Fourth Regulatory Period (2016 to 2020) of the National Grid Corporation of the Philippines (NGCP) in accordance with the Alternative Form of Rate Setting Methodology under the Rules for Setting the Transmission Wheeling Rates (RTWR) with Prayer for Confidential Treatment of Information*".

In an Order dated January 4, 2023, the ERC set the determination of compliance with the jurisdictional requirements on January 27, 2023, the expository presentation for Luzon, Visayas, and Mindanao Stakeholders on January 27, 2023, January 31, 2023, and February 3, 2023, respectively, the pre-trial conference on February 10, 2023 and presentation of evidence on February 10 and 14, 2023.

In an Order dated March 3, 2023, the ERC set additional hearing dates on March 14 and 17, 2023. Likewise, hearings were conducted on March 28, 2023 and April 4, 2023.

As regards the 5<sup>th</sup> RP Revenue Application, NGCP, in a letter dated January 13, 2023, requested for the ERC to allow NGCP to file the 5<sup>th</sup> RP Revenue Application by April 28, 2023.

In a letter-response from the ERC dated March 3, 2023, which was received by NGCP on March 15, 2023, NGCP was directed to file its 5<sup>th</sup> RP Revenue Application within fifteen (15) days from receipt of the said letter, i.e., on or before March 30, 2023.

Accordingly, NGCP filed its 5<sup>th</sup> RP Revenue Application on March 30, 2023 under ERC Case No. 2023-025RC entitled, "*In the Matter of the Application of the Maximum Annual Revenue for the Fifth Regulatory Period (2021 to 2025) of the National Grid Corporation of the Philippines (NGCP) in Accordance with the Alternative Form of Rate Setting Methodology Under the Rules in Setting the Transmission Wheeling Rates (RTWR)*".

In an Order dated April 13, 2023, the ERC set the determination of compliance with the jurisdictional requirements on May 30, 2023, the expository presentation for Luzon, Visayas, and Mindanao Stakeholders on May 30, 2023, June 6, 2023, and June 13, 2023, respectively, the pre-trial conference on June 20, 2023, and the presentation of evidence on June 20 and 22, 2023.

During the May 30, 2023 Expository Presentation for Luzon Stakeholders, the ERC directed for the cancellation of the Pre-trial Conference and Presentation of Evidence on June 20 and 22, 2023 and had scheduled a clarificatory hearing on July 10-14, 2023.

In an Order dated September 13, 2023, the ERC issued its initial findings on Phase 1 of the 4<sup>th</sup> RP Revenue Application as embodied in the Partial Initial Determination. On this, NGCP filed its Comment *Ex Abundanti Ad Cautelam* [To ERC's 4<sup>th</sup> Regulatory Period (RP) Phase 1: Partial Initial Determination] -with- Motion to Lift Suspension of ERC Resolution No. 07, Series of 2011 and its Supplemental Comment (To Phase 1: Partial Initial Determination).

In an Order dated November 22, 2023, the ERC set the Pre-trial Conference and presentation of evidence on the 5<sup>th</sup> RP Revenue Application on December 5, 2023 and January 16 and 23, 2024. No further development on the ERC review had been received as of report date.

#### *Regulated Entity*

At the time the ERC issued its Final Determination for the 2<sup>nd</sup> RP (the 2006 Final Determination), Regulated Transmission Services were provided by the National Transmission Corporation (TRANSCO). Under R.A. 9511, which was signed by the President on December 1, 2008 and which became effective on January 15, 2009, a nationwide franchise to manage the transmission system was granted to NGCP.

As discussed in Note 4 to the consolidated financial statements, the Group has signed a Concession Agreement with PSALM and TRANSCO, which covers the management and development of the transmission grid over the term of the franchise. Under the Concession Agreement, the Group is responsible for the operation, management, and development of the grid, while TRANSCO continues to hold title over the transmission assets. Notwithstanding this, TRANSCO continues to be responsible for the settlement of Right of Way (ROW) claims in respect of projects that were ongoing at the time R.A. 9511 became effective, while the Group is responsible for ROW claims for projects that were initiated subsequent to the effectivity of the Act.

Hence, while the Group will incur the bulk of the costs of providing the Regulated Transmission Services over the 3<sup>rd</sup> RP, some residual costs for the provision of these services will be incurred by TRANSCO. For the Third Reset, the ERC is concerned only with the total cost of providing the Regulated Transmission Services and not with who incurs these costs.

#### *Performance Based Regulation (PBR)*

PBR is an internationally accepted method of rate setting that meets the requirements of Section 43(f) of EPIRA. PBR is forward looking and sets the MAR that the Regulated Entity can earn from the provision of Regulated Transmission Services for each five-year regulatory period. This provides an incentive for cost reduction over time, this leads to price efficiency since savings made in one regulatory period are built into the cost structure used to determine the MAR that will apply over the subsequent regulatory periods.

#### *Maximum Allowed Revenue (MAR)*

The ERC makes a determination of the annual revenue requirements (ARR) of the transmission business as well as the price control arrangements that will apply during the regulatory period. The RTWR requires the MAR to be smoothed to reduce the likelihood of price shocks to customers and revenue shocks to the Regulated Entity.

Following an annual rate verification and validation process, and using a price control formula, the ERC sets the MAR that the Group can bill its transmission customers for each year in the regulatory period.

With the issuance of the Order dated January 21, 2016, NGCP billed an iMAR<sub>2016</sub> of P41.65 billion consistent with Module F of the 2006 Revised Open Access Transmission Service (OATS) Rules. As for the iMAR<sub>2016</sub> differential of P2.14 billion, following the ERC Order dated December 19, 2016, this was collected by NGCP in 2017. The approved iMAR<sub>2016</sub> amounting to P43.79 billion has been applied in CYs 2017, 2018 and 2019.



In its Order dated February 13, 2020, the ERC granted NGCP a provisional authority to implement an iMAR<sub>2020</sub> in the amount of P47.05 billion, an increase of P3.26 billion from the iMAR<sub>2016</sub> of P43.79 billion, effective April 2020 billing month. However, only P300.00 million of the incremental revenue was billed in July and August 2020 billing months following its deferment in consideration of the COVID-19 pandemic situation and the issuance of the July 28, 2020, directing the suspension of the billing of the iMAR<sub>2020</sub>. As a result, there was an unbilled iMAR<sub>2020</sub> differential in the amount of P2.96 billion.

In October 2021, NGCP filed a Reiteratory Motion for Implementation of iMAR<sub>2020</sub> praying for the lifting of the July 28, 2020 Order, recovery of the 2020 iMAR and the unbilled iMAR for 2021 from October 2021 to December 2022, and confirmation that the approved iMAR<sub>2020</sub> level of P47.05 billion shall be implemented continuously until a new MAR is issued, or until the issuance of the Final Determination for the succeeding regulatory period, whichever is earlier.

On January 17, 2022, NGCP submitted its compliance to the January 5, 2022 ERC Order, which was received by NGCP on January 7, 2022.

On April 29, 2022, the ERC promulgated an Order dated March 23, 2022 resolving the iMAR<sub>2020</sub> Application and approving an iMAR<sub>2020</sub> of P51.47 billion. Moreover, the Commission directed the implementation of the approved iMAR<sub>2020</sub> in the next billing cycle and required the submission of NGCP's proposed recovery scheme on the unbilled iMAR<sub>2020</sub> in CYs 2020, 2021 and first four (4) months of 2022 within 60 days from receipt of the Order.

Accordingly, on June 8, 2022, NGCP submitted to ERC its Compliance dated June 2, 2022 on NGCP proposed manner of recovery of the unbilled iMAR<sub>2020</sub> for the years 2020, 2021 and four (4) months of 2022, in the total amount of PhP17.62 billion starting September 2022 to June 2024. Likewise, starting May 2022 Billing Period, NGCP has already implemented its billing based on the P51.47 billion iMAR pursuant to the March 23, 2022 Order of the ERC.

On March 10, 2023, NGCP filed its Motion (To Approve Implementation of Recovery Scheme) reiterating its prayer for the approval of the billing and recovery of the unbilled iMAR for 2020 under a new proposed recovery scheme, i.e., from May 2023 to April 2024.

On June 22, 2023, NGCP filed a Reiteratory Motion with Motion to Resolve (4<sup>th</sup> Motion) with the Commission on the *Proposed Recovery Scheme for the Recovery of the Unbilled iMAR in 2020* and respectfully prayed, among others, for the Commission to immediately issue an Order approving the billing and the recovery of the CY 2020 unbilled iMAR in the amount of PhP7.38 billion in accordance with the proposed recovery scheme discussed in its Motion dated 10 March 2023.

To date, NGCP is yet to receive ERC's resolution on NGCP's proposed manner of recovery of the unbilled iMAR<sub>2020</sub>.

Pending the issuance of the ERC Decisions/Orders on the 4<sup>th</sup> and 5<sup>th</sup> RP Revenue Applications and in the absence of an issuance on the applicable iMAR for 2023, NGCP shall continue to implement the iMAR<sub>2020</sub> level of PhP51.47 billion in billing Luzon, Visayas, and Mindanao customer segments until a new level of MAR is approved.

*Forecast Capital Expenditures (CAPEX) and Forecast Operating Expenditures (OPEX)*

The ERC building block cost calculations for the approved ARR include allowed forecast CAPEX and forecast OPEX. This entails responsibility on the part of NGCP as the regulated entity to implement projects and/or activities allowed by ERC to be able to perform its mandated function as transmission provider. A significant amount of NGCP's Revenues is used to fund the CAPEX and OPEX approved by the ERC in its Decision and Final Determination for the subsequent year/s. The utilization of these earned profits will allow NGCP to implement projects and meet its performance targets committed with the ERC and its customers.

In Section 5.4 of the Final Determination, ERC's approval on the operating and maintenance expenditures (OPEX) for the 3<sup>rd</sup> RP considered only, among others, inclusions of TRANSCO of the supervision and permit fees relating to its 2<sup>nd</sup> RP capital expenditures (CAPEX). However, instead of allowing its recovery as part of the OPEX for the 3<sup>rd</sup> RP, ERC deemed it more appropriate to treat it as an adjustment to the 3<sup>rd</sup> RP Revenue Requirement of NGCP thru the OPEX Efficiency Adjustment (OEA).

In Section 5.26 of Final Determination for the 3<sup>rd</sup> RP, ERC included provisions for the recovery of cost of capital on land-related CAPEX for years 2011 to 2015 based on NGCP's approved CAPEX requirements and the historical levels at which TRANSCO has been able to settle its right-of-way (ROW) claims. Further, ERC decided that land-related CAPEX is to be reflected as a separate item from the approved CAPEX levels of NGCP for the 3<sup>rd</sup> RP and is to be the subject of an ex-post prudency review during the 4<sup>th</sup> RP.

Outside the levels of CAPEX and OPEX approved by ERC, NGCP has to finance for the cost of ROW, operation/maintenance and rehabilitation of sub-transmission assets not disposed to distribution utilities (DUs), and value-added tax.

For the 4<sup>th</sup> RP and 5<sup>th</sup> RP, the Group continues to undertake the implementation of CAPEX which it deems prudent and necessary and incur OPEX that is essential in its day-to-day operations to continuously fulfill its mandated function as the Transmission Provider.

*Weighted Average Cost of Capital (WACC)*

The rate of return that the Regulated Entity can earn in its investment in transmission system assets is equal to the WACC as set by the ERC during each Reset based on a market analysis of the rate of return a business in the Philippines with a similar risk profile to the Regulated Entity can be expected to earn.

In the absence of a Final Determination for the 4<sup>th</sup> RP and 5<sup>th</sup> RP, which should provide, among others the WACC approved by the ERC for the years 2016 to 2020, as stated in Note 20, the ERC approved an interim revenue of P43.79 billion which was implemented in years 2016 to 2019, and subsequently provisionally approved a revenue of P47.05 billion for the year 2020. On April 29, 2022, the ERC promulgated an Order dated March 23, 2022 resolving the iMAR<sub>2020</sub> Application and approving an iMAR<sub>2020</sub> of P51.47 billion effective January 2020 until a new transmission revenue has been determined.

#### *Other Taxes*

As stated in the 3<sup>rd</sup> RP Final Determination Section 5.20 ERC Final Decision - Other Taxes, the VAT payable on both CAPEX and OPEX inputs will be accounted separately and will not be included in either the CAPEX or OPEX forecasts for the third and subsequent regulatory periods. VAT payable on CAPEX inputs will not be capitalized but will be recovered from customers in full as the expenditure is incurred. It follows that asset valuations will continue to be undertaken on a VAT exclusive basis.

Input VAT related to CAPEX and OPEX presented under "Prepaid expenses and other current assets" and "Deferred input VAT" account in the consolidated statements of financial position amounted to P2.95 billion and P56.28 million respectively as at December 31, 2023.

With the implementation of the TRAIN Law under R.A No. 10963 which took effect on January 1, 2018, Section 86 thereof, under Clause (bbb) repealed Section 9, with respect to VAT, of R.A. 9511 or the National Grid Corporation of the Philippines Franchise Act, which changes the classification of NGCP from Non-VAT to VAT entity, all transactions affected therein are made subject to VAT. Hence, effective January 1, 2018, all Input Taxes related to purchases of goods and services both for CAPEX and OPEX shall be considered as Input VAT, deductible from the Group's Output VAT Payable pursuant to the BIR rules and regulations.

#### *PIS*

The PIS provides the Regulated Entity an incentive to improve the quality of service provided to customers. Under the PIS, key indicators of service performance are monitored annually. Should the quality-of-service performance be above targets set during the Reset, the Regulated Entity can earn an incentive of up to 3% of ARR or the unsmoothed MAR. Conversely, should the quality of service fall below the targets, a penalty of up to 3% of ARR can be applied.

In the absence of a Final Determination for the 4<sup>th</sup> RP and 5<sup>th</sup> RP, which should provide, among others the key indicators, performance targets and the ARR for years 2016 to 2025, the PIS has not been considered in the current IMAR collected by the Group.

#### *Rate Arrears - Transferred Assets*

An issue that has arisen since the Draft Determination is the recovery of rate arrears in respect of sub-transmission and connection assets that are to be transferred to the RAB at the beginning of the 3<sup>rd</sup> RP. The ERC has not enforced payment of the associated sub-transmission and connection charges from a number of electric cooperatives (ECs), as to have done so, would have been unduly onerous on the ECs' customers. The ERC has decided that the Regulated Entity can recover these arrears through the Final Determination.

In the Final Determination, the total rate arrears from transferred assets carried forward at Consumer Price Index (CPI) to 2011 and added to the 2011 unsmoothed MAR amounted to P1.46 billion.

#### *Force Majeure Events*

In the occurrence of Force Majeure Events (FME), transmission assets operated by the Group may be damaged or destroyed. In such cases, increase in costs incurred by the Group in addition to the maximum amounts that it is otherwise permitted to charge to its transmission customers through the MAR is allowed to be recovered through FME Pass Through charges, subject to the approval of ERC in accordance with Article X of the RTWR.

For capital expenditures (i.e., replacement with new assets), partial recovery through additional FME charges will be billed on top of the regulated charges from the time of its approval until the end of the current Regulatory Period. The remaining unrecovered cost will then form part of the RAB assets to be carried forward to the subsequent regulatory period and recovered through regulatory depreciation with reasonable rate of return based on WACC. For operating expenditures (e.g., repairs), recovery during the current regulatory period as additional OPEX, is allowable.

The assets destroyed by such FMEs are removed from the RAB in the succeeding regulatory reset, but recovery is allowable through application for "accelerated depreciation".

Management does not consider the occurrences of FMEs as impairment indications with respect to the future economic benefits.

For the year 2009 to December 31, 2023, the following FME Claims were submitted to the Commission:

2009	Typhoons Cosme and Frank, and for Sabotage of Transmission Towers in Mindanao (ERC Case No. 2009-049RC)	July 13, 2009
	Sabotage in Mindanao (ERC Case No. 2009-161RC)	November 16, 2009
2010	Destruction of the Matnog Repeater Station due to Lightning Strikes and the Sabotage of Tower 142 in Mindanao (ERC Case No. 2010-065RC)	June 15, 2010 (refer to note below)
	Typhoons Ondoy and Pepeng and Sabotage in Mindanao (ERC Case No. 2010-112RC)	September 24, 2010 (refer to note below)
2011	Typhoons Basyang and Juan (ERC Case No. 2011-112RC)	Filed on August 9, 2011 (refer to note below)
2012	Flooding in Mindanao, Typhoon Bebang, Landslide in Midanano and Typhoon Juaning (ERC Case No. 2012-070 RC)	May 7, 2012
	Typhoons Quiel and Sendong (ERC Case No. 2012-106RC)	September 28, 2012
2013	Earthquake, Flooding and Lightning Incidents in Visayas (ERC Case No. 2013-019 RC)	February 6, 2013
	Flooding Caused by Monsoon Rains in Luzon, Sabotage Incidents in Mindanao, and Typhoon Pablo (ERC Case No. 2013-171 RC)	August 7, 2013
2014	Sabotage Incidents and Landslide due to Continuous Heavy Rains in Mindanao, Typhoons Santi and Vinta (ERC Case No. 2014-127 RC)	August 29, 2014
	Typhoon Yolanda (ERC Case No. 2014-163)	November 5, 2014

Forward

2015	Typhoon Agaton in Mindanao (ERC Case No. 2015-005RC)	January 14, 2015
	Typhoon Glenda in Visayas and Luzon (ERC Case No. 2015-136)	July 15, 2015
	Typhoons Ruby and Seniang in Visayas and Mindanao (ERC Case No. 2015-205)	December 4, 2015
2016	Typhoon Amang in Visayas and Sabotage Incidents in Mindanao (ERC Case No. 2016-003RC)	January 12, 2016
	Typhoon Ineng in Luzon (ERC Case No. 2016-163RC)	August 22, 2016
	Typhoon Lando in Luzon and Sabotage Incidents in Mindanao (ERC Case No. 2016-179RC)	October 07, 2016
	Typhoon Nona in Luzon and Sabotage Incidents in Mindanao (ERC Case No. 2016-196RC)	December 12, 2016
2017	Typhoons Karen and Lawin in Luzon (ERC Case No. 2017-090RC)	October 12, 2017
	Typhoon Nina in Luzon (ERC Case No. 2017-116RC)	December 22, 2017
2018	Earthquake in Visayas (ERC Case No. 2018-073RC)	July 05, 2018
	Lightning and Sabotage Incidents in Luzon and Bombing Incident in Mindanao (ERC Case No. 2018-100RC)	October 02, 2018
	Typhoon Urduja, Typhoon Vinta, Typhoon Basyang and Flash Flood in Mindanao (ERC Case No. 2018-117RC)	December 11, 2018
2019	Flood due to Enhanced Southwest Monsoon Rain caused by Tropical Depression Josie in Luzon (ERC Case No. 2019-055RC)	July 19, 2019
	Typhoon Ompong in Luzon (ERC Case No. 2019-071RC)	September 13, 2019
	Typhoon Rosita in Luzon (ERC Case No. 2019-085RC)	October 29, 2019
2020	Earthquake Incidents in Mindanao, Typhoon Tisoy in Luzon and Visayas, and Typhoon Ursula in Visayas (ERC Case No. 2020-039RC)	October 30, 2020
2021	Typhoon Quinta, Super Typhoon Rolly, and Tropical Storm Vicky and Landslide in Mindanao (ERC Case No. 2021-084RC)	October 20, 2021
2022	Typhoon Odette in Visayas and Mindanao	December 21, 2022

*\*Note: With ERC Decision dated December 12, 2012 authorizing the NGCP to collect the FM Event Pass-Through Among Charge*

The ERC in its decisions dated December 10, 2012 under ERC Case Nos. 2010-112 RC (Typhoons Ondoy and Pepeng and Sabotage in Mindanao), 2011-112 RC (Typhoons Basyang and Juan) and 2010-065 RC (Destruction of the Matnog Repeater Station due to Lightning Strikes and the Sabotage of Tower 142), authorized the Company to collect the FM Event Pass-Through Amount Charge from its Luzon and Mindanao Grid customers, and allowed FME the billing of the rates corresponding to these FME claim applications until December 31, 2015, which is the last year under the Third Regulatory Period.

On September 28, 2021, NGCP received a copy of ERC Decision dated June 16, 2021, relative to the FME Claim Application for Typhoon Agaton in Mindanao (ERC Case No. 2015-005RC) resolving the instant application. On this, NGCP filed its Motion for Reconsideration on October 13, 2021, and prayed that the Commission reconsiders its June 16, 2021 Decision and issues a new decision on the said case.

Subsequently, NGCP received a copy of ERC Decision dated April 15, 2021, relative to the FME Claim Application for Typhoons Quiel and Sendong (ERC Case No. 2012-106RC) on November 2, 2021. Accordingly, NGCP filed its Motion for Reconsideration on November 16, 2021, and prayed that the Commission reconsiders its April 15, 2021 Decision and issues a new decision.

On March 18, 2022, NGCP received a copy of ERC Decision dated November 24, 2021, relative to the FME Claim Application for Sabotage Incidents and also for Landslide due to Continuous Heavy Rains in Mindanao and Typhoons Santi and Vinta in Luzon (ERC Case No. 2014-127RC). On this, NGCP filed its Motion for Partial Reconsideration dated April 1, 2022.

On April 5, 2022, NGCP received a copy of the ERC Decision dated November 24, 2021, relative to the FME Claim Application for Flooding in Mindanao, Typhoon Bebang, Landslide in Mindanao and Typhoon Juaning (ERC Case No. 2012-070RC). On this, NGCP filed its Motion for Reconsideration dated April 19, 2022.

In summary, of the 29 FME cases filed with the ERC from 2009 to 2022, three (3) FME cases have already been approved and billed, eighteen (18) FME cases are for decision by ERC, and eight (8) FME cases are pending for ERC Resolution of NGCP's Motions.

*Excluded Services or Connection Charge and Residual Sub-transmission Charges (CC/RSTC)*

The Group is also engaged in the provision of other services and are earning revenues for these services over and above the MAR.

The Group's excluded services, as provided in the RTWR. Currently, this includes the provision of Transmission Connection Services, and the management of Residual Sub-transmission Assets. Income from these excluded services is recognized under Connection and Residual Sub-transmission Income under "Revenues" account presented in profit or loss.

The ERC, in its Decision dated July 6, 2011 (ERC Case Nos. 2008-066RC and 2009-153 RC), approved the CC/RSTC for the years 2008 and 2009 with modification. Further, it required the filing of its application for the approval of the 2011 and 2012 CC/RSTC within 30 days from receipt of the Decision and within the same period as the filing of the MAR 2012, respectively.

In compliance with the ERC's directive in the said Decision, the Group applied for the approval of CY 2011 and 2012 CC/RSTC in December 2011. Also, the Group commenced billing customers of the ERC-approved 2009 CC/RSTC starting December 2011 billing month.

The ERC, in the same issuance, likewise directed the Group to bill the approved re-computed charges for CY 2009 as its current charges to all customers effective December 2011 billing month. These re-computed charges considered the asset reclassification made in the 3<sup>rd</sup> RP Final Determination which brought changes in the charges resulting to over or under billings. On this, ERC directed for the refund/collection of the accounted over or under recovery of the CC/RSTC. The Group, in December 2011 filed a Motion for Reconsideration (MR) which challenged the interest imposition. To date the ERC is yet to be resolved the MR.

Moreover, this ERC Decision effectively repealed the Deferment Orders issued in year 2008 covering the following nine (9) power customers, namely: Ifugao Electric Cooperative, Inc. (IFELCO), Eastern Samar Electric Cooperative, Inc. (ESAMELCO), Northern Samar Electric Cooperative, Inc. (NORSAMELCO), Leyte IV Electric Cooperative, Inc. (LEYECO IV), Davao Oriental Electric Cooperative, Inc. (DORECO), Surigao del Sur II Electric Cooperative, Inc. (SURSECO II), Mountain Province Electric Cooperative, Inc. (MOPRECO), Negros I Electric Cooperative, Inc. (NORECO I), Busco Sugar Milling Co., Inc. (BUSCO).

Consistent with the foregoing, the accounts of the nine (9) power customers were adjusted to consider the implementation of the approved CYs 2008 and 2009 CC/RSTC and the reclassification of assets.

Subsequent to this, NGCP in a letter dated October 16, 2013, requested for the deferment of the filing of the 2014 CC/RSTC Application to prioritize the re-computation of the CYs 2011, 2012 and 2013 CC/RSTC using the 2004 Sinclair Knight Merz (SKM) Valuation Report as directed by the Commission during the regulatory hearings on the said cases. In compliance, NGCP submitted the 2011, 2012 and 2013 Re-computed CC/RSTC on September 4, 2014.

On October 8, 2014, NGCP also requested the deferment of the filing of its 2015 CC/RSTC Application to allow it considerable time to submit a robust application given that it has just commenced with the preparations and the validation process for the determination of the 2014 as well as 2015 CC/RSTC.

On June 8, 2015, NGCP received a copy of the ERC Order dated June 2, 2015, directing NGCP to submit the refund/collect scheme and over/under recovery on the CC/RSTC for CYs 2008, 2009 and 2010. In compliance with the foregoing, NGCP submitted the CC/RSTC Over/Under-recoveries relative to the implementation of the Refund/Collect Scheme on the 2008 and 2009 CC/RSTC, and the resolution of NGCP's Application for the Approval of the 2010 CC/RSTC on July 13, 2015.

On October 6, 2017, NGCP filed with the ERC its 2014 and 2015 CC/RSTC Application docketed as ERC Case No. 2017-100 RC.

Pending the resolution of the 2010 to 2015 CC/RSTC cases filed with the ERC, NGCP continues to implement the 2009 CC/RSTC level approved by the ERC in its July 6, 2011 Decision with adjustments due to sale of sub-transmission assets and reclassification of assets, as applicable.

#### *Sub-transmission Assets (STAs)*

Pursuant to the EPIRA and Rule 6 of its IRR, the ERC adopted and mandated the segregation of transmission and sub-transmission functions and assets for transparency and disposal, and authorized TRANSCO to negotiate and transfer such sub-transmission assets and facilities to qualified DUs based on technical and functional criteria established in Article III of the Guidelines to the Sale and Transfer of the TRANSCO's Sub-transmission Assets and the Franchising of Qualified Consortiums (Guidelines).

ERC Resolution No. 15, Series of 2011, *A Resolution Adopting the Amended Rules for the Approval of the Sale and Transfer of TRANSCO's Sub-transmission Assets and the Acquisition by Qualified Consortiums* provides some payment option to ECs on the settlement of the sub-transmission cost of service provision brought by regulatory lag of one year (deferred CC/RSTC); capitalization of the CC/RSTC and inclusion of the same in the acquisition cost of the assets.

In ERC Resolution No. 04, Series of 2013, the ERC resolved and clarified, among others, that residual subtransmission assets (RSTAs) with two (2) or more connected Distribution Utilities (DUs) other than those listed in its Annex A, are reverted to NGCP's Regulatory Asset Base (RAB) effective January 1, 2013 and that subtransmission assets, both connection assets (CA) and RSTA with only one (1) connected DU and/or directly connected load end-users shall continue to be sold/divested until further notice.

ERC Resolution No. 7, Series of 2016 further extended deadline for the disposition of the RSTAs listed in Annex A of Resolution No. 4, Series of 2013, until June 30, 2016.

#### Valuation of STAs

Article V Section 2 of the Guidelines states "Asset valuation shall be the agreed value as negotiated between TRANSCO and the Qualified Distribution Utility or Qualified Consortium in a manner consistent with Section 8 of the Act. This negotiated value shall be deemed to be the Current Sound Value of the Sub-transmission Assets at the time of the acquisition of the assets."

Article V Section 2 of ERC Resolution No. 1, Series of 2009 states that "if the contract was entered after June 13, 2006, the sub-transmission assets shall be valued in reference to the Sinclair Knight Merz (SKM) valuation, or any subsequent valuation as approved by the Commission." This was further amended by ERC Resolution No. 18 Series of 2009.

#### Negative Pledge

Pursuant to Section 5.03 (Negative Pledge) of the Concession Agreement, TRANSCO shall not without the Concessionaire's prior written consent, sell, dispose of, or create any lien or encumbrance over Transmission Assets except that TRANSCO shall be entitled to dispose of Sub-Transmission Assets in accordance with Section 8 of the EPIRA and retain the proceeds thereof. The Concession Fee shall be reduced in accordance with paragraph 1 (c) of Schedule 6 (Adjustment to Concession Fee) to reflect any disposals of STAs after the Bid Date, subject to Section 6.04 regarding the Commencement Fee.



**Sale of STAs**

For the year 2016 to December 31, 2023, the following sub-transmissions assets were divested by TRANSCO to Qualified Distribution Utilities:

<b>Year</b>	<b>Acquiring Distribution Utility</b>	<b>Assets Acquired</b>
2016	Zamboanga City Electric Cooperative, Inc. (ZAMCELCO)	Putik Lateral 69 kV line Recodo Lateral 69 69 kV line Pitogo-Tulungatung 69 kV line Pitogo-San Jose Gusu 69 kV line
2017	Ilocos Norte Electric Cooperative, Inc. (INEC)	Currimao - San Nicolas 69kV San Nicolas - Laoag 69kV Laoag - Sarrat 69kV Sarrat - Marcos 69kV Sarrat - Piddig 69kV
	Central Pangasinan Electric Cooperative, Inc. (CENPELCO)	Mangaldan Bari S/S Site Establishment Transformer, two winding, 5 MVA 69/13.8 kV Structures and Improvements
	Isabela I Electric Cooperative, Inc. (ISELCO I)	Cauayan substation (all eqpt. and facilities incl. 15 MVA transformer)
	Mactan Electric Company (MECO)	Mactan Loadend S/S-GIS 69kV TMX/STR #20 MEPZ loadend S/S 69kV Mactan Loadend S/S #3 69kV MECO S/S 31 MECO S/S #3 69kV GIS-MECO S/S #2 69kV GIS 69kV Mactan Loadend S/S-Mulle Osmena 69kV Mactan-PAF 13.8kV Mandaue-Mactan Power Cable 69kV
2018	Cotabato Electric Cooperative (COTELCO)	Tacurong-Kidapawan 69kV Kidapawan-Mto. Apo 69kV Kidapawan-Matalam 69kV
	Iligan Light and Power Co. (ILPI)	Agus 6-Swyd-NSC L2 69kV Line Kiwalan-ICC 69kV Line Overton-ILPI 13.8kV Line Kiwalan-PFC 69kV Line Agus 6-Swyd-NSC L1
2019	La Union Electric Company, Inc. (LUECO)	Bauang-Poro 69kV line

<p>Manila Electric Company (MERALCO)</p>	<p><b>Batch 2</b>  Makban-Los Banos 69kV line  Makban-Calamba 69kV line Portion  Calamba-CSE 13.8kV line  Los Banos-IRRI/ERDB/PPRDI 13.8kV  Calamba S/S Eqpt., 10 MVA transformer  Los Banos S/S Eqpt., 2x10MVA transformer  Makban S/S termination Eqpt.</p> <p><b>Batch 4</b>  Tayabas 115kV Switchyard incl. 100 MVA Transformer  Transformer (T1) - two winding 100MVA  1 - 115kV Power Circuit Breaker  6 - 115kV Current Transformer  4 - 115kV Voltage Transformer  Site Establishment - Type 3-115  1 - Switch Bay 115kV with 1 CB Feeder  1 - Switch Bay 115kV with 1 CB Feeder Protection  Ternate S/S Equipment, incl. 50MVA Transformer  Transformer (T3) - two winding 50MVA  3 - 115kV Power Circuit Breaker  2 - 34.5kV Power Circuit Breaker  3 - 34.5kV Potential Transformer  Ancillaries - 115kV  Site Establishment - Type 3-115  Site Establishment - Type 2-69  1 - Switchbay 115kV 1 &amp; 1/2 bay with 3 CB  1 - Switchbay 115kV 1 &amp; 1/2 bay with 3 CB Protection  2 - Switchbay 34.5kV with 1 CB Feeder  2 - Switchbay 34.5kV with 1 CB Feeder Protection</p>
<p>Lanao del Norte Electric Cooperative, Inc. (LANECO)</p>	<p>Agus 6 - Kauswagan 69kV Line</p>

#### *Revenue from Related Business*

The Group provides the following services that utilize part of the RAB:

- Rental of facilities and equipment; and
- Co-location, antenna attachments, use of building lots and space, use of access roads, attachment of telephone cables, and tapping to AC/DC power sources.

The Group also earns revenue from provision of the following services that do not involve the use of RAB assets like technical assistance, including assisting with the testing, commissioning, calibration, and maintenance of client's facilities.

Section 1 of RA 9511 provides that NGCP may engage in any related business which maximizes utilization of assets provided that a portion of the net income derived from such undertaking utilizing assets which form part of the rate base shall be used to reduce transmission wheeling rates as determined by the ERC. Such portion of net income used to reduce the transmission wheeling rates shall not exceed 50% of the net income derived from such undertaking.

#### *Ancillary Service Charges*

The Group includes in its monthly billings to customers pass through charges for provision of Ancillary Services (AS) which are generation-related services.

Relative to this, the Group has undertaken the reconciliation of its billing and payment of AS and AS VAT for years 2009 to 2018.

The Group has also submitted its compliances with ERC on the Ancillary Services Procurement Agreements (ASPA) with National Power Corporation (NPC) and Therma Marine, Inc. (TMI) involving re-computation of AS costs and collection/refund of AS charges from/to customers pursuant to pertinent ERC Orders/Decisions.

ERC in its Order dated June 16, 2014 in ERC Case Nos. 2010-011 RC and 2010-014 RC entitled, "In the Matter of the Application for Approval of the Ancillary Services Procurement Agreement (ASPA) between the National Grid Corporation of the Philippines (NGCP) and Therma Marine, Inc. (TMI), with Prayer for Provisional Authority," directed the Group to refund its customers the amount of P12.7 million and the corresponding VAT, for a period of twelve (12) months or the amount of P1.06 million plus VAT, per month starting its next billing cycle from receipt of the Order.

Consistent with the aforesaid Order, the Group implemented the refund effective September 2014 billing month or August 26 to September 25, 2014 for a period of twelve (12) months or until August 2015 billing month (July 26 to August 25, 2015), equivalent to a monthly credit adjustment of P1.26 million refund of the AS Cost was funded by TMI deposited monthly to the Group's accounts. TMI shall also fund the AS-VAT refund after its conduct of reconciliation with the Group.

On March 15, 2016, ERC issued an Order approving the recovery of the Differential Charge for the Ancillary Service provided by NPC to NGCP representing the March 26, 2008 to October 25, 2009 billing period under ERC Case No. 2009-029 RC. Pursuant to this, the Group commenced the billing of Ancillary Service Differential Charge of P31.38/kW-month for the Luzon, Visayas, and Mindanao grids effective May 2016 billing month or April 26 to May 25, 2016 to customers who benefitted from the Ancillary Services provision from April 2008 to October 2009 billing months. As at October 2016 billing month, NGCP has fully billed and stopped the billing of AS Differential Charge in Luzon.

In a letter from the ERC dated July 22, 2021, NGCP was directed to comply with the Decision on ERC Case No. 2006-049RC entitled, *"In the Matter of the Application of Ancillary Services - Cost Recovery Mechanism (AS-CRM) of the Ancillary Services Procurement Plan, with Prayer for Provisional Authority"*. Thus, in September 2021 Billing Period, NGCP implemented the full recovery of AS costs from the Load Customers and the cessation of the AS Charges in the power bills being issued to Embedded Generators (EGs).

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## 28. Events After Reporting Period

The Group has the following transactions after December 31, 2023.

- A. Payments of loans payable of the Group, through NGCP in 2024 amounted to P2,844,500,000 in January 2024 for various loan availments in 2023. Proceeds from loans in 2024 amounted to P4,000,000,000 which is availed on February 13, 2024 from LBP as part of the 15,000,000,000 Term Loan Agreement. Payments of loans payable in February 2024 amounted on to P2,889,500,000.
- B. On March 27, 2024, the Parent Company received dividends from its non-voting preferred shares in NGCP amounting to P369.60 million and a total of P1.41 billion from OTHI and P21 common shares on April 2, 2024. On April 8, 2024, the BOD of the Parent Company approved the declaration of P0.3474 cash dividends per share for the 1st quarter of 2024 amounting to P1.83 billion. These cash dividends will be paid to shareholders of record as of April 26, 2024 on May 10, 2024.



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**REPORT OF INDEPENDENT AUDITORS  
TO ACCOMPANY SUPPLEMENTARY INFORMATION FOR FILING  
WITH THE SECURITIES AND EXCHANGE COMMISSION**

The Board of Directors and Stockholders  
**Synergy Grid & Development Phils., Inc.**  
Unit 1602, 16<sup>th</sup> Floor  
Tycoon Center Bldg. Condominium  
Pearl Drive Pasig City, Metro Manila

We have audited, in accordance with Philippine Standards on Auditing, the consolidated financial statements of Synergy Grid & Development Phils., Inc. and Subsidiaries (the "Group") as at December 31, 2023 and 2022 and each of the three years in the period ended December 31, 2023, on which we have rendered report our thereon dated April 12, 2024.

Our audit was made for the purpose of forming an opinion on the consolidated financial statements of the Group taken as a whole. The supplementary information included in the following accompanying additional components is the responsibility of the Group's management. Such additional components include:

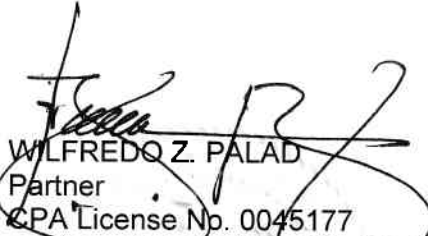
- Reconciliation of Retained Earnings Available for Dividend Declaration
- Supplementary Schedules of Annex 68-J
- Map of conglomerate

Firm Regulatory Registration & Accreditation.  
PRC-BOA Registration No. 0003, valid until September 20, 2026  
IC Accreditation No. 0003-IC, Group A, valid for five (5) years covering the audit of 2020 to 2024  
financial statements (2019 financial statements are covered by IC Circular Letter (CL) No. 2019-39, Transition clause)  
BSP Accreditation No. 0003-BSP, Group A, valid for five (5) years covering the audit of 2020 to 2024  
financial statements (2019 financial statements are covered by BSP Monetary Board Resolution No. 2181, Transition clause)



This supplementary information is presented for purposes of complying with the Revised Securities Regulation Code Rule 68 and is not a required part of the basic consolidated financial statements. Such supplementary information has been subjected to the auditing procedures applied in the audits of the basic consolidated financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic consolidated financial statements taken as a whole.

**R.G. MANABAT & CO.**



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Tax Identification No. 106-197-186

BIR Accreditation No. 08-001987-006-2021

Issued September 2, 2021; valid until September 1, 2024

PTR No. MKT 10075190

Issued January 2, 2024 at Makati City

April 12, 2024  
Makati City, Metro Manila

**RECONCILIATION OF RETAINED EARNINGS (DEFICIT)  
AVAILABLE FOR DIVIDEND DECLARATION  
FOR THE REPORTING PERIOD ENDED DECEMBER 31, 2023**

**SYNERGY GRID & DEVELOPMENT PHILS., INC.**  
Unit 1602, 16th Floor Tycoon Center Bldg. Condominium,  
Pearl Drive Pasig City, Metro Manila

<b>Unappropriated Retained Earnings, beginning of the reporting period</b>		<b>P423,221,394</b>
<b>Add: Category A: Items that are directly credited to Unappropriated Retained Earnings</b>		
Reversal of Retained Earnings Appropriation/s	P -	
Effect of restatements or prior-period adjustments	-	
Others (describe nature)	-	-
<b>Less: Category B: Items that are directly debited to Unappropriated Retained Earnings</b>		
Dividend declaration during the reporting period	1,829,361,847	
Retained Earnings appropriated during the reporting period	-	
Effects of restatements or prior-period adjustments	-	
Others (describe nature)	-	<b>1,829,361,847</b>
<b>Unappropriated Retained Earnings, as adjusted</b>		<b>(1,406,140,453)</b>
<b>Add/Less: Net Income (loss) for the current year</b>		<b>1,803,544,093</b>
<b>Less: Category C.1: Unrealized income recognized in the profit or loss during the reporting period (net of tax)</b>		
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 adjustments (mark-to-market gains) of financial instruments at fair value through profit or loss (FVTPL)	-	
Unrealized foreign exchange gain of Investment Property	-	
Other unrealized gains or adjustments to the retained earnings as a result of certain transactions accounted for under the PFRS (describe nature)	-	
<b>Sub-total</b>		<b>-</b>
<b>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)</b>		
Realized foreign exchange gain, except those attributable to cash and cash equivalents	-	
Realized fair value adjustments (mark-to-market gains) of financial instruments at fair value through profit or loss (FVTPL)	-	
Realized foreign exchange gain of Investment Property	-	
Other realized gains or adjustments to the retained earnings as a result of certain transactions accounted for under the PFRS (describe nature)	-	
<b>Sub-total</b>		<b>-</b>
<b>Forward</b>		

<b>Add: Category C.3: Unrealized income recognized in profit or loss in prior reporting periods but reversed in the current reporting period (net of tax)</b>		
Reversal of previously recorded foreign exchange gain, except those attributable to cash and cash equivalents	P -	
Reversal of previously recorded fair value adjustments (mark-to-market gains) of financial instruments at fair value through profit or loss (FVTPL)	-	
Reversal of previously recorded fair value gain of Investment Property	-	
Reversal of other unrealized gains or adjustments to the retained earnings as a result of certain transactions accounted for under the PFRS, previously recorded (describe nature)	-	
Sub-total		P -
<b>Adjusted Net Income/Loss</b>		<b>397,403,640</b>
<b>Add: Category D: Non-actual losses recognized in profit or loss during the reporting period (net of tax)</b>		
Depreciation on revaluation increment (after tax)	-	
Sub-total		-
<b>Add/Less: Category E: Adjustment related to relief granted by the SEC and BSP</b>		
Amortization of the effect of reporting relief	-	
Total amount of reporting relief granted during the year	-	
Others (describe nature)	-	
Sub-total		-
<b>Add/Less: Category F: Other items that should be excluded from the determination of the amount of available for dividend distribution</b>		
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	-	
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)	-	
Others (describe nature)	-	
Sub-total		-
<b>Total Retained Earnings, end of the reporting period available for dividend</b>		<b>P397,403,640</b>



**SYNERGY GRID & DEVELOPMENT PHILS., INC. AND SUBSIDIARIES**  
**SCHEDULE A. FINANCIALS ASSETS**

Name of Issuing entity and association of each issue (i)	Number of shares or principal amount of bonds and notes	Amount shown in the balance sheet (ii)	Valued based on market quotation at balance sheet date (iii)	Income received and accrued
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**NOT APPLICABLE**

**SYNERGY GRID & DEVELOPMENT PHILS., INC. AND SUBSIDIARIES**  
**SCHEDULE B. AMOUNTS RECEIVABLE FROM DIRECTORS, OFFICERS, EMPLOYEES, RELATED PARTIES AND**  
**PRINCIPAL STOCKHOLDERS (OTHER THAN AFFILIATES)**

Account Name	Balance at beginning of period	Additions	Amounts collected (ii)	Amounts written off (iii)	Current	Not Current	Balance at end of period
Calamity Loan Fund	P143,594	P315,000	(P398,333)	P -	P60,261	P -	<b>P60,261</b>
Due From Officers & Employees	14,911,964	33,279,967	(42,477,561)	-	5,714,370	-	<b>5,714,370</b>
Advances to Officers & Employees	42,308,557	369,875,059	(371,445,413)	-	40,738,203	-	<b>40,738,203</b>
<b>Total</b>	<b>P57,364,115</b>	<b>P403,470,026</b>	<b>(P414,321,307)</b>	<b>P -</b>	<b>P46,512,834</b>	<b>P -</b>	<b>P46,512,834</b>

**SYNERGY GRID & DEVELOPMENT PHILS., INC. AND SUBSIDIARIES**

**SCHEDULE D. INTANGIBLE ASSETS - OTHER ASSETS**

Description (i)	Beginning balance	Additions at cost (ii)	Charged to cost and expenses	Charged to other accounts	Other changes additions (deductions) (iii)	Ending balance
Intangible Assets	P331,425,647,245	P56,863,637,830	P10,278,219,986	P -	P -	P378,011,065,089

**SYNERGY GRID & DEVELOPMENT PHILS., INC. AND SUBSIDIARIES**

**SCHEDULE E. LONG TERM DEBT**

<b>Title of Issue and type of obligation (i)</b>	<b>Lender</b>	<b>Outstanding Balance</b>	<b>Amount shown under caption "Current portion of long-term debt" in related balance sheet (ii)</b>	<b>Amount shown under caption "Long-Term Debt" in related balance sheet (iii)</b>	<b>Interest Rates</b>	<b>Number of Periodic Installments</b>
Long Term Debt	Asia United Bank, Maybank Philippines Inc., Philippine National Bank, Security Bank Corporation	P6,300,000,000	P6,300,000,000	P -	6.4400%	10 years; Semi-annual
Long Term Debt	Land Bank of the Philippines, Maybank Philippines Inc., Philippine National Bank, Union Bank of the Philippines	6,000,000,000	1,500,000,000	4,500,000,000	5.0282%	10 years; Semi-annual
Long Term Debt	BDO Unibank, Inc., Land Bank of the Philippines, Philippine National Bank, Security Bank Corporation, Union Bank of the Philippines	8,500,000,000	1,700,000,000	6,800,000,000	5.0657%	10 years; Semi-annual
Long Term Debt	PHILIPPINE NATIONAL BANK	3,000,000,000	500,000,000	2,500,000,000	5.5253%	10 years; Semi-Annual
Long Term Debt	BDO UNIBANK, INC.	6,000,000,000	1,000,000,000	5,000,000,000	5.6889%	10 years; Semi-Annual
Long Term Debt	LAND BANK OF THE PHILIPPINES	3,250,000,000	500,000,000	2,750,000,000	6.2102%	10 years; Semi-Annual

<b>Title of Issue and type of obligation (i)</b>	<b>Lender</b>	<b>Outstanding Balance</b>	<b>Amount shown under caption "Current portion of long-term debt" in sheet (ii)</b>	<b>Amount shown under caption "Long-Term Debt" in related balance sheet (iii)</b>	<b>Interest Rates</b>	<b>Number of Periodic Installments</b>
Long Term Debt	CHINA BANKING CORPORATION	P4,900,000,000	P700,000,000	P4,200,000,000	4.7980%	10 years; Semi- Annual
Long Term Debt	BANK OF COMMERCE	2,660,000,000	380,000,000	2,280,000,000	5.4242%	10 years; Semi- Annual
Long Term Debt	BANK OF THE PHILIPPINE ISLANDS	3,500,000,000	500,000,000	3,000,000,000	6.6242%	10 years; Semi- Annual
Long Term Debt	SUMITOMO MITSUI BANKING CORPORATION - MANILA BRANCH	200,000,000	200,000,000	-	6.9368%	5 years; Semi- Annual
Long Term Debt	CHINA BANKING CORPORATION	3,750,000,000	500,000,000	3,250,000,000	5.6707%	10 years; Semi- Annual
Long Term Debt	PHILIPPINE NATIONAL BANK	3,750,000,000	500,000,000	3,250,000,000	5.9222%	10 years; Semi- Annual
Long Term Debt	SECURITY BANK CORPORATION	1,500,000,000	200,000,000	1,300,000,000	5.9222%	10 years; Semi- Annual
Long Term Debt	BDO UNIBANK, INC.	8,000,000,000	1,000,000,000	7,000,000,000	5.0152%	10 years; Semi- Annual
Long Term Debt	BDO UNIBANK, INC.	4,000,000,000	500,000,000	3,500,000,000	5.0152%	10 years; Semi- Annual
Long Term Debt	BANK OF CHINA LIMITED	2,500,000,000	2,500,000,000	-	4.8750%	5 years; Semi- Annual
Long Term Debt	LAND BANK OF THE PHILIPPINES	2,240,000,000	280,000,000	1,960,000,000	5.2273%	10 years; Semi- Annual
Long Term Debt	LAND BANK OF THE PHILIPPINES	3,570,000,000	420,000,000	3,150,000,000	4.8424%	10 years; Semi- Annual
Long Term Debt	BDO UNIBANK, INC.	3,820,000,000	200,000,000	3,620,000,000	3.1538%	10 years; Semi- Annual

<b>Title of Issue and type of obligation (i)</b>	<b>Lender</b>	<b>Outstanding Balance</b>	<b>Amount shown under caption "Current portion of long-term debt" in related balance sheet (ii)</b>	<b>Amount shown under caption "Long-Term Debt" in related balance sheet (iii)</b>	<b>Interest Rates</b>	<b>Number of Periodic Installments</b>
Long Term Debt	BDO UNIBANK, INC.	P5,730,000,000	P300,000,000	P5,430,000,000	3.1538%	10 years; Semi-Annual
Long Term Debt	MUFG BANK, LTD.	1,000,000,000	-	1,000,000,000	5.3200%	5 years; Semi-Annual
Long Term Debt	CHINA BANKING CORPORATION	2,910,000,000	90,000,000	2,820,000,000	4.2929%	10 years; Semi-Annual
Long Term Debt	MIZUHO BANK, LTD. - MANILA BRANCH	1,000,000,000	-	1,000,000,000	4.0530%	5 years; Semi-Annual
Long Term Debt	SECURITY BANK CORPORATION	3,900,000,000	80,000,000	3,820,000,000	4.9859%	10 years; Semi-Annual
Long Term Debt	PHILIPPINE NATIONAL BANK	2,500,000,000	1,000,000,000	1,500,000,000	4.8684%	5 years; Semi-Annual
Long Term Debt	CHINA BANKING CORPORATION	2,910,000,000	90,000,000	2,820,000,000	4.2929%	10 years; Semi-Annual
Long Term Debt	BDO UNIBANK, INC.	4,900,000,000	50,000,000	4,850,000,000	4.0404%	10 years; Semi-Annual
Long Term Debt	BDO UNIBANK, INC.	5,880,000,000	60,000,000	5,820,000,000	4.0404%	10 years; Semi-Annual
Long Term Debt	BDO UNIBANK, INC.	3,920,000,000	40,000,000	3,880,000,000	4.7815%	10 years; Semi-Annual
Long Term Debt	BANK OF CHINA LIMITED	2,500,000,000	-	2,500,000,000	4.0000%	5 years; Semi-Annual
Long Term Debt	BDO UNIBANK, INC.	5,782,000,000	59,000,000	5,723,000,000	5.0514%	10 years; Semi-Annual
Long Term Debt	SECURITY BANK CORPORATION	4,925,000,000	50,000,000	4,875,000,000	5.7040%	10 years; Semi-Annual

<b>Title of Issue and type of obligation (i)</b>	<b>Lender</b>	<b>Outstanding Balance</b>	<b>Amount shown under caption "Current portion of long-term debt" in related balance sheet (ii)</b>	<b>Amount shown under caption "Long-Term Debt" in related balance sheet (iii)</b>	<b>Interest Rates</b>	<b>Number of Periodic Installments</b>
Long Term Debt	LAND BANK OF THE PHILIPPINES	P4,925,000,000	P50,000,000	P4,875,000,000	6.1294%	10 years; Semi-Annual
Long Term Debt	LAND BANK OF THE PHILIPPINES	4,925,000,000	50,000,000	4,875,000,000	6.1294%	10 years; Semi-Annual
Long Term Debt	BANK OF COMMERCE	3,168,000,000	32,000,000	3,136,000,000	6.8404%	10 years; Semi-Annual
Long Term Debt	CHINA BANKING CORPORATION	1,386,000,000	14,000,000	1,372,000,000	6.8281%	10 years; Semi-Annual
Long Term Debt	MIZUHO BANK, LTD. - MANILA BRANCH	4,177,830,000	1,044,340,000	3,133,490,000	7.3000%	5 years; Quarterly
Long Term Debt	CHINA BANKING CORPORATION	1,287,000,000	13,000,000	1,274,000,000	7.2172%	10 years; Semi-Annual
Long Term Debt	MUFG BANK, LTD.	4,600,000,000	-	4,600,000,000	7.2400%	7 Years; Semi-Annual
Long Term Debt	CHINA BANKING CORPORATION	3,267,000,000	33,000,000	3,234,000,000	6.9781%	10 years; Semi-Annual
Long Term Debt	BDO UNIBANK, INC.	5,000,000,000	75,000,000	4,925,000,000	6.8124%	10 years; Semi-Annual
Long Term Debt	PHILIPPINE NATIONAL BANK	5,000,000,000	75,000,000	4,925,000,000	6.7591%	10 years; Semi-Annual
Long Term Debt	BDO UNIBANK, INC.	8,000,000,000	120,000,000	7,880,000,000	6.8124%	10 years; Semi-Annual
Long Term Debt	BDO UNIBANK, INC.	7,000,000,000	105,000,000	6,895,000,000	7.1408%	10 years; Semi-Annual
Long Term Debt	METROPOLITAN BANK AND TRUST COMPANY	5,000,000,000	1,000,000,000	4,000,000,000	7.2309%	5 years; Semi-Annual

<b>Title of Issue and type of obligation (i)</b>	<b>Lender</b>	<b>Outstanding Balance</b>	<b>Amount shown under caption of "Current portion of long-term debt" in related balance sheet (ii)</b>	<b>Amount shown under caption "Long-Term Debt" in related balance sheet (iii)</b>	<b>Interest Rates</b>	<b>Number of Periodic Installments</b>
Long Term Debt	MUFG BANK, LTD.	P1,500,000,000	P -	P1,500,000,000	6.7020%	7 Years; Semi- Annual
Long Term Debt	BDO UNIBANK, INC.	2,700,000,000	40,500,000	2,659,500,000	7.1117%	10 years; Semi- Annual
Long Term Debt	BDO UNIBANK, INC.	2,300,000,000	34,500,000	2,265,500,000	7.1117%	10 years; Semi- Annual
Long Term Debt	CHINA BANKING CORPORATION	5,000,000,000	50,000,000	4,950,000,000	6.7847%	10 years; Semi- Annual
	<b>TOTALS</b>	<b>P194,532,830,000</b>	<b>P23,935,340,000</b>	<b>P170,597,490,000</b>		



**SYNERGY GRID & DEVELOPMENT PHILS., INC. AND SUBSIDIARIES**

**SCHEDULE F. INDEBTEDNESS TO RELATED PARTIES (LONG TERM LOANS FROM RELATED PARTIES)**

Name of Related Parties (i)	Balance at beginning of period	Balance at end of period (ii)
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**NOT APPLICABLE**

**SYNERGY GRID & DEVELOPMENT PHILS., INC. AND SUBSIDIARIES**  
**SCHEDULE G. GUARANTEES OF SECURITIES OF OTHER ISSUERS**

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 (i)	Amount owned by person for which statement is filed	Nature of guarantee (ii)
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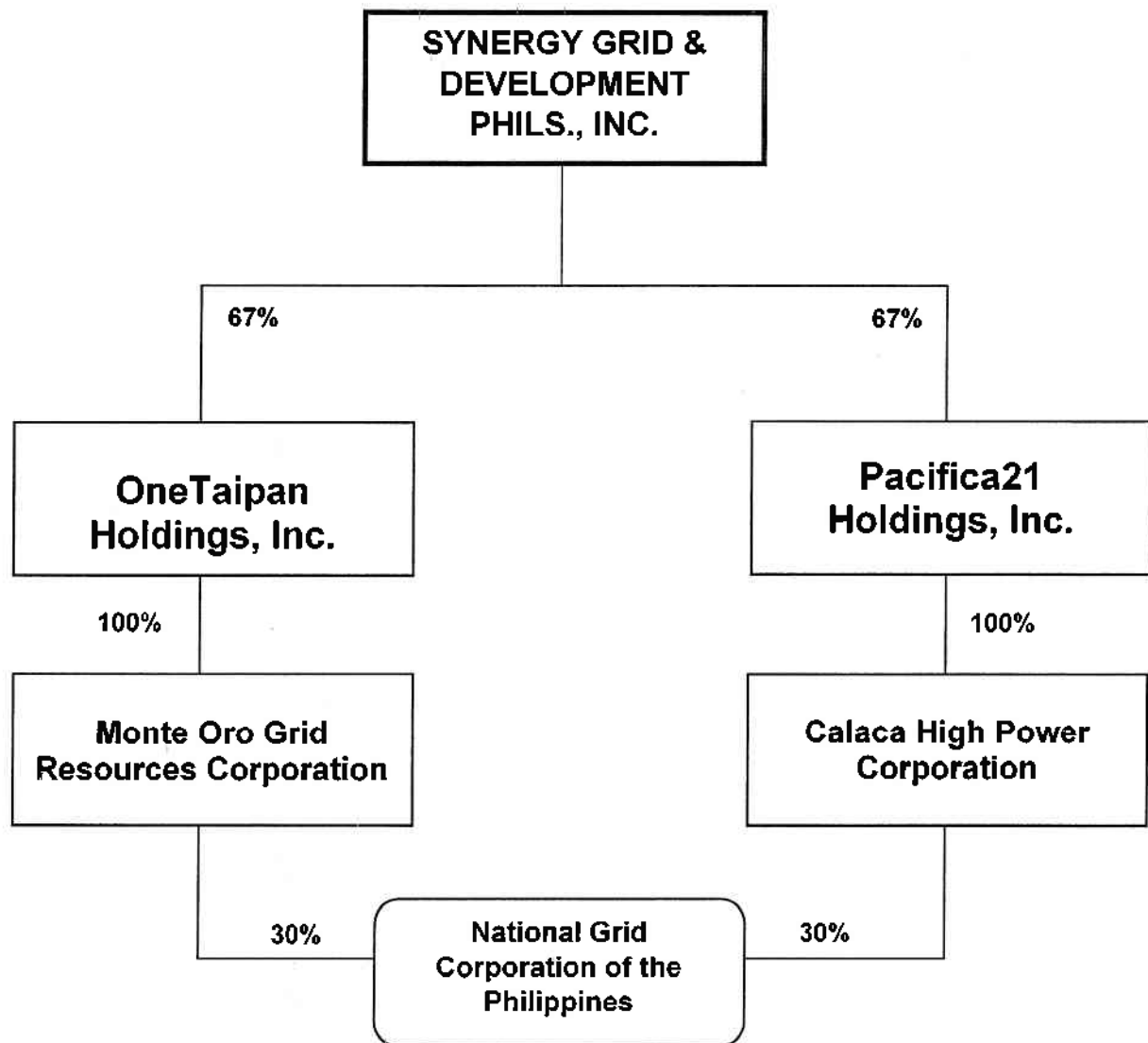
**NOT APPLICABLE**

**SYNERGY GRID & DEVELOPMENT PHILS., INC. AND SUBSIDIARIES**  
**SCHEDULE H. CAPITAL STOCK**

Title of Issue (2)	Number of Shares authorized	Number of shares issued and outstanding at shown under related balance sheet caption	Number of shares reserved for options, warrants, conversion and other rights	Number of shares held by affiliates (3)	Directors, officers and employees	Others
Common Shares	<b>5,300,000,000</b>	<b>P5,265,866,000</b>	<b>P -</b>	<b>P -</b>	<b>P4,100,400,023</b>	<b>P1,165,465,977</b>

## MAP OF CONGLOMERATE

December 31, 2023





R.G. Manabat & Co.  
The KPMG Center, 6/F  
6787 Ayala Avenue, Makati City  
Philippines 1209  
Telephone +63 (2) 8885 7000  
Fax +63 (2) 8894 1985  
Internet [www.home.kpmg/ph](http://www.home.kpmg/ph)  
Email [ph-inquiry@kpmg.com](mailto:ph-inquiry@kpmg.com)

## **REPORT ON INDEPENDENT AUDITOR'S COMPONENTS OF FINANCIAL SOUNDNESS INDICATORS**

The Board of Directors and Stockholders  
**Synergy Grid & Development Phils., Inc.**  
Unit 1602, 16<sup>th</sup> Floor  
Tycoon Center Bldg. Condominium  
Pearl Drive Pasig City, Metro Manila

We have audited in accordance with Philippine Standards on Auditing, the consolidated financial statements of Synergy Grid & Development Phils., Inc. and Subsidiaries (the "Group") as at December 31, 2023 and 2022 and each of the three years in the period ended December 31, 2023, on which we have rendered report our thereon dated April 12, 2024.

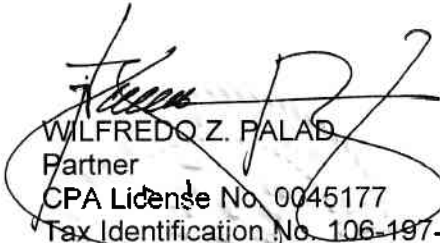
Firm Regulatory Registration & Accreditation:  
PRC-BOA Registration No. 0003, valid until September 20, 2026  
IC Accreditation No. 0003-IC, Group A, valid for five (5) years covering the audit of 2020 to 2024  
financial statements (2019 financial statements are covered by IC Circular Letter (CL) No. 2019-39, Transition clause)  
BSP Accreditation No. 0003-BSP, Group A, valid for five (5) years covering the audit of 2020 to 2024  
financial statements (2019 financial statements are covered by BSP Monetary Board Resolution No. 2161, Transition clause)

R.G. Manabat & Co., a Philippine partnership and a member firm of the KPMG global organization of independent member firms affiliated with KPMG International Limited, a private English company limited by guarantee.



Our audits were made for the purpose of forming an opinion on the basic consolidated financial statements of the Group taken as a whole. The Supplementary Schedule on Financial Soundness Indicators, including their definitions, formulas, 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 (PFRS) 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 PFRS. 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 each of the three years in the period ended December 31, 2023, and no material exceptions were noted.

**R.G. MANABAT & CO.**



WILFREDO Z. PALAD  
Partner  
CPA License No. 0045177  
Tax Identification No. 106-197-186

BIR Accreditation No. 08-001987-006-2021

Issued September 2, 2021; valid until September 1, 2024

PTR No. MKT 10075190

Issued January 2, 2024 at Makati City

April 12, 2024  
Makati City, Metro Manila

## SCHEDULE OF FINANCIAL SOUNDNESS INDICATORS

SYNERGY GRID & DEVELOPMENT PHILS., INC. & SUBSIDIARIES

As of December 31, 2023

Ratios	Formula	Current Period
Current ratio	$\frac{\text{Current assets}}{\text{Current liabilities}}$	0.58
Acid test ratio	$\frac{\text{Cash and cash equivalents+ marketable securities+accounts receivable}}{\text{Current liabilities}}$	0.23
Solvency ratio	$\frac{\text{Total assets}}{\text{Total liabilities}}$	1.50
Debt-to-equity ratio	$\frac{\text{Total liabilities}}{\text{Equity}}$	2.00
Asset-to-equity ratio	$\frac{\text{Total assets}}{\text{Equity}}$	3.00
Interest rate coverage ratio	$\frac{\text{Earnings before interest and tax}}{\text{Interest expense}}$	5.06
Return on equity	$\frac{\text{Net Income}}{\text{Equity}}$	0.11
Return on assets	$\frac{\text{Net Income}}{\text{Average total assets}}$	0.05
Net profit margin	$\frac{\text{Net Income}}{\text{Net sales}}$	0.44

# COVER SHEET

## for AUDITED FINANCIAL STATEMENTS

SEC Registration Number

C	S	1	9	7	0	4	1	3	7	6
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### COMPANY NAME

S	Y	N	E	R	G	Y		G	R	I	D		&		D	E	V	E	L	O	P	M	E	N	T			
P	H	I	L	S	.	.		I	N	C	.																	

### PRINCIPAL OFFICE (No. / Street / Barangay / City / Town / Province)

U	n	i	t		1	6	0	2			1	6	t	h		F	l	o	o	r			T	y	c	o	o	n
C	e	n	t	e	R		B	i	d	g		C	o	n	d	o	m	i	n	i	u	m						
P	e	a	r	l		D	r	i	v	e		P	a	s	i	g		C	i	t	y							
M	e	t	r	o		M	a	n	i	l	a																	

Form Type

A A F S

Department requiring the report

Secondary License Type, If Applicable

### COMPANY INFORMATION

Company's email Address

synergy072015@yahoo.com

Company's Telephone Number/s

8584-39-30

Mobile Number

No. of Stockholders

Annual Meeting (Month / Day)

Fiscal Year (Month / Day)

December 31

### CONTACT PERSON INFORMATION

The designated contact person **MUST** be an Officer of the Corporation

Name of Contact Person

Ma. Theresita Yulo

Email Address

tesyulo@yahoo.com

Telephone Number/s

8584-3930

Mobile Number

### CONTACT PERSON'S ADDRESS

**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 nonreceipt of Notice of Deficiencies. Further, nonreceipt of Notice of Deficiencies shall not excuse the corporation from liability for its deficiencies.



# **SYNERGY GRID & DEVELOPMENT PHILS., INC.**

**SEPARATE FINANCIAL STATEMENTS**  
**December 31, 2023 and 2022**

With Independent Auditors' Report



R.G. Manabat & Co.  
The KPMG Center, 6/F  
6787 Ayala Avenue, Makati City  
Philippines 1209  
Telephone +63 (2) 8885 7000  
Fax +63 (2) 8894 1985  
Internet [www.home.kpmg/ph](http://www.home.kpmg/ph)  
Email [ph-inquiry@kpmg.com](mailto:ph-inquiry@kpmg.com)

## REPORT OF INDEPENDENT AUDITORS

The Board of Directors and Stockholders  
**Synergy Grid & Development Phils., Inc.**  
Unit 1602, 16th Floor  
Tycoon Center Bldg. Condominium  
Pearl Drive Pasig City, Metro Manila

### Report on the Audit of the Financial Statements

#### *Opinion*

We have audited the separate financial statements of Synergy Grid & Development Phils., Inc. (the "Company"), which comprise the separate statements of financial position as at December 31, 2023 and 2022, and the separate statements of income, separate statements of comprehensive income, separate statements of changes in equity and separate statements of cash flows for the years then ended, and notes, comprising material accounting policies and other explanatory information.

In our opinion, the accompanying separate financial statements present fairly, in all material respects, the unconsolidated financial position of the Company as at December 31, 2023 and 2022, and its unconsolidated financial performance and its unconsolidated cash flows for the years then ended 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 *Auditors' Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Company in accordance with the Code of Ethics for Professional Accountants in the Philippines (Code of Ethics) together with the ethical requirements that are relevant to our audits of the 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.

#### *Firm Regulatory Registration & Accreditation:*

PRC-BOA Registration No. 0003, valid until September 20, 2026

IC Accreditation No. 0003-IC, Group A, valid for five (5) years covering the audit of 2020 to 2024

financial statements (2019 financial statements are covered by IC Circular Letter (CL) No. 2019-39, Transition clause)

BSP Accreditation No. 0003-BSP, Group A, valid for five (5) years covering the audit of 2020 to 2024

financial statements (2019 financial statements are covered by BSP Monetary Board Resolution No. 2161, Transition clause)





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

Management is responsible for the preparation and fair presentation of the financial statements in accordance with PFRSs, 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 financial statements, management is responsible for assessing the Company'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 Company or to cease operations, or has no realistic alternative but to do so.

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

## *Auditors' Responsibilities for the Audit of the Financial Statements*

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' 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 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 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 Company'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 Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the 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 auditors' report. However, future events or conditions may cause the Company to cease to continue as a going concern.



- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

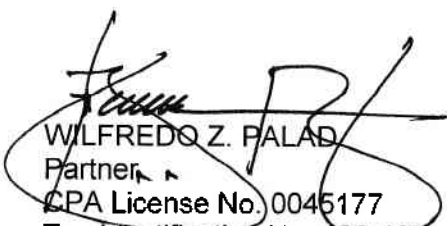
We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

**Report on the Supplementary Information Required Under Revenue Regulations No. 15-2010 of the Bureau of Internal Revenue**

Our audits were conducted for the purpose of forming an opinion on the basic separate financial statements taken as a whole. The supplementary information in Note 14 to the separate financial statements is presented for purposes of filing with the Bureau of Internal Revenue and is not a required part of the basic separate financial statements. Such information is the responsibility of management. The information has been subjected to the auditing procedures applied in our audit of the basic separate financial statements. In our opinion, the information is fairly stated in all material respects, in relation to the basic separate financial statements taken as a whole.

The engagement partner on the audit resulting in this independent auditors' report is Wilfredo Z. Palad.

**R.G. MANABAT & CO.**

  
WILFREDO Z. PALAD

Partner

CPA License No. 0045177

Tax Identification No. 106-187-186

BIR Accreditation No. 08-001987-006-2021

Issued September 2, 2021; valid until September 1, 2024

PTR No. MKT 10075190

Issued January 2, 2024 at Makati City

April 12, 2024

Makati City, Metro Manila





**Synergy Grid & Development Phils., Inc.**  
1601-1602 Tycoon Centre  
Pearl Drive Ortigas Center  
San Antonio, Pasig City, Philippines

## STATEMENT OF MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL STATEMENTS


The Management of Synergy Grid & Development Phils., Inc. (the "Company") is responsible for the preparation and fair presentation of the financial statements, as at and 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 financial statements, management is responsible for assessing the Company'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 Company or to cease operations, or has no realistic alternative but to do so.


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

The Board of Directors reviews and approves the financial statements, and submits the same to the Stockholders.

**R. G. Manabat & Co.**, the independent auditor appointed by the Stockholders, has audited the financial statements of the Company in accordance with Philippine Standards on Auditing, and in its report to the Stockholders, has expressed its opinion on the fairness of presentation upon completion of such audit.

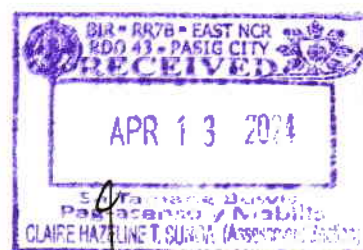
  
**HENRY SY, JR.**  
Chairman of the Board


  
**PAUL SAGAYO, JR.**  
President & CEO

  
**JUSTICE LADY SORIANO**  
Treasurer & CFO

**APR 08 2024**  
Signed this 08 day of April 2024

Doc. No. 06 ;  
Page No. 03 ;  
Book No. 1 ;  
Series of 2024.



  
**MELINA RENE O ABLAZA**  
Notary Public for the City of Pasig and Municipality of Pateros  
Commission until 31 December 2025  
2601 Discovery Center 25 ADB Ave., Ortigas Center Pasig City  
APPT No. 162 (2024-2025)-Roll No. 84322  
PTR No. 1734668-01-10-2024-Pasig City  
IBU No. 202975-01-15-2024-RSM  
MCLE Compliance N/A (Admitted to the Bar in 2023)

**SYNERGY GRID & DEVELOPMENT PHILS., INC.**  
**SEPARATE STATEMENTS OF FINANCIAL POSITION**

		December 31	
	Note	2023	2022
<b>ASSET</b>			
<b>Current Asset</b>			
Cash and cash equivalents	4, 13	P324,427,621	P1,731,142,553
Due from related parties	9, 13	5,100,000	-
Other current assets	5	24,164,847	17,489,460
<b>Total Current Assets</b>		<b>353,692,468</b>	<b>1,748,632,013</b>
<b>Noncurrent Asset</b>			
Property and equipment - net	6	1,265,566	1,905,693
Investment in subsidiaries	7	94,246,163,000	94,246,163,000
<b>Total Noncurrent Assets</b>		<b>94,247,428,566</b>	<b>94,248,068,693</b>
		<b>P94,601,121,034</b>	<b>P95,996,700,706</b>
<b>LIABILITIES AND EQUITY</b>			
<b>Current Liabilities</b>			
Accrued expenses and other current liabilities	8, 13	P3,879,146	P144,056,417
Dividends payable	10, 13	5,953,554	1,235,526,797
<b>Total Current Liabilities</b>		<b>9,832,700</b>	<b>1,379,583,214</b>
<b>Noncurrent Liability</b>			
Deferred tax liability	12	-	11,404
<b>Total Liabilities</b>		<b>9,832,700</b>	<b>1,379,594,618</b>
<b>Equity</b>			
Capital stock	10	5,265,866,000	5,265,866,000
Additional paid-in capital	10	88,928,018,694	88,928,018,694
Retained earnings	10	397,403,640	423,221,394
<b>Total Equity</b>		<b>94,591,288,334</b>	<b>94,617,106,088</b>
		<b>P94,601,121,034</b>	<b>P95,996,700,706</b>

*See Notes to the Separate Financial Statements.*





**SYNERGY GRID & DEVELOPMENT PHILS., INC.**  
**SEPARATE STATEMENTS OF PROFIT OR LOSS AND**  
**OTHER COMPREHENSIVE INCOME**

		Years Ended December 31	
	Note	2023	2022
<b>INCOME</b>			
Dividend income	7, 9	P1,815,620,800	P5,281,096,800
Management income	9	48,000,000	48,000,000
Interest income	4, 11	32,915,882	85,071,488
		1,896,536,682	5,414,168,288
<b>OPERATING EXPENSES</b>			
Salaries and other employee benefits	9	40,823,257	38,058,978
Director's fee		35,040,000	35,520,000
Professional fees		3,803,512	4,738,840
Filing fees		2,030,055	2,024,568
Rent	5	1,504,204	1,358,770
Depreciation	6	660,168	584,459
Transportation		436,700	458,542
Taxes and licenses		390,535	120,406
Communications, light and water		229,576	279,422
Advertising fees		178,946	182,446
Office supplies		149,646	220,055
Repairs and maintenance		69,551	145,819
Bank charges		2,711	10,313
Miscellaneous		376,385	375,243
		85,695,246	84,077,861
<b>INCOME FROM OPERATIONS</b>		<b>1,810,841,436</b>	<b>5,330,090,427</b>
<b>FOREIGN EXCHANGE (LOSS) GAIN - Net</b>		<b>(4,890)</b>	<b>45,614</b>
<b>INCOME BEFORE INCOME TAX AND FINAL TAX</b>		<b>1,810,836,546</b>	<b>5,330,136,041</b>
<b>TAXES</b>	12	<b>7,292,453</b>	<b>17,500,601</b>
<b>NET INCOME/TOTAL COMPREHENSIVE INCOME</b>		<b>P1,803,544,093</b>	<b>P5,312,635,440</b>

See Notes to the Separate Financial Statements.



**SYNERGY GRID & DEVELOPMENT PHILS., INC.**  
**SEPARATE STATEMENTS OF CHANGES IN EQUITY**

	Years Ended December 31			
	Capital Stock (Note 10)	Additional Paid-in Capital (Note 10)	Retained Earnings	Total Equity
<b>Balance at January 1, 2023</b>	P5,265,866,000	P88,928,018,694	P423,221,394	P94,617,106,088
Net income/total comprehensive income for the year	-	-	1,803,544,093	1,803,544,093
<b>Transactions with Owners of the Company</b>				
Cash dividends declared	-	-	(1,829,361,847)	(1,829,361,847)
	-	-	(1,829,361,847)	(1,829,361,847)
<b>Balance at December 31, 2023</b>	<b>P5,265,866,000</b>	<b>P88,928,018,694</b>	<b>P397,403,640</b>	<b>P94,591,288,334</b>
Balance at January 1, 2022	P5,265,866,000	P88,928,018,694	P376,451,954	P94,570,336,648
Net income/total comprehensive income for the year	-	-	5,312,635,440	5,312,635,440
<b>Transactions with Owners of the Company</b>				
Cash dividends declared	-	-	(5,265,866,000)	(5,265,866,000)
	-	-	(5,265,866,000)	(5,265,866,000)
<b>Balance at December 31, 2022</b>	<b>P5,265,866,000</b>	<b>P88,928,018,694</b>	<b>P423,221,394</b>	<b>P94,617,106,088</b>

See Notes to the Separate Financial Statements.





**SYNERGY GRID & DEVELOPMENT PHILS., INC.**  
**SEPARATE STATEMENTS OF CASH FLOWS**

		Years Ended December 31	
	Note	2023	2022
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Income before income tax		P1,810,836,546	P5,330,136,041
Adjustments for:			
Depreciation	6	660,168	584,459
Dividend income	7, 9	(1,815,620,800)	(5,281,096,800)
Interest income	4, 11	(32,915,882)	(85,071,488)
Unrealized foreign exchange (gain)/loss - net		4,890	(45,614)
Operating loss before working capital changes		(37,035,078)	(35,493,402)
Increase in:			
Due from related parties		(5,100,000)	-
Other current assets		(6,675,387)	(2,479,222)
Increase (decrease) in accrued expenses and other current liabilities		804,399	(23,744,514)
Cash absorbed by operations		(48,006,066)	(61,717,138)
Interest received		32,915,882	85,071,488
Income taxes paid		(7,303,857)	(17,494,506)
Net cash provided (used in) by operating activities		(22,394,041)	5,859,844
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Cash dividends received	7	1,815,620,800	5,281,096,800
Additions to property and equipment	6	(20,041)	(903,450)
Purchase of preferred shares	7	-	(12,238,163,000)
Net cash generated by (used in) investing activities		1,815,600,759	(6,957,969,650)
<b>CASH FLOW FROM FINANCING ACTIVITIES</b>			
Payment of cash dividends		(2,870,208,605)	(4,435,109,692)
Payment of final tax on dividends paid		(329,708,155)	(424,764,258)
Net cash used in financing activities		(3,199,916,760)	(4,859,873,950)
NET DECREASE IN CASH AND CASH EQUIVALENTS		(1,406,710,042)	(11,811,983,756)
EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS		(4,890)	45,614
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR		1,731,142,553	13,543,080,695
CASH AND CASH EQUIVALENTS AT END OF YEAR	4	P324,427,621	P1,731,142,553

See Notes to the Separate Financial Statements.



**SYNERGY GRID & DEVELOPMENT PHILS., INC.**  
**NOTES TO THE SEPARATE FINANCIAL STATEMENTS**

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**1. Reporting Entity**

Synergy Grid & Development Phils., Inc. (the "Company" or "SGDPI") was originally a mining corporation and registered with the Philippine Securities and Exchange Commission (SEC) on June 1, 1970 under the name Mankayan Minerals Development Company, Inc.

On February 22, 1994, the SEC approved the Company's change of corporate name to UEM Development Phils., Inc. and the change in its primary purpose from engaging in mining activities to general construction and other allied businesses. The amendment of its primary purpose was due to the potential opportunity in the construction industry brought about by the entry of a new foreign investor.

On October 10, 1997, the SEC approved the Amendment to the Seventh Article of the Company's Articles of Incorporation increasing the par value of its authorized capital stock from P0.01 to P1.00, decreasing the Company's shares of stock from 500,000,000 shares to 50,000,000 shares, and stating that the stockholders shall have no pre-emptive rights.

On December 14, 2010, the Board of Directors (BOD) considered and approved the Amendment of the Articles of Incorporation and By-Laws of the Company for the purpose of, among others, changing the Company's corporate name to Synergy Grid & Development Phils., Inc., changing its primary purpose to enable it to engage in the business of investing in, purchasing or acquiring, and selling or disposing of the shares of stock, bonds, evidences of indebtedness and other securities issued or created by corporations and other entities engaged in power, energy, utilities, infrastructure and other allied businesses; and for the above purposes, to acquire, lease, hold, occupy, use, mortgage real and personal properties, to obtain financing from local and international funding sources or otherwise raise capital and funds by issuing or creating equity and debt securities, and to do or engage in any and all other businesses and activities incidental to or connected with, or in furtherance and/or the implementation of any and all of the foregoing. The amendments to the Articles of Incorporation and By-Laws of the Company were approved by the stockholders on December 21, 2010.

On November 14, 2019, the BOD of the Company, and on December 20, 2019, the Stockholders of the Company, approved the amendment of the Articles of Incorporation of the Corporation pursuant to an increase in authorized capital stock from P50.00 million divided into 50.00 million common shares at par value of P1.00 per share to P5.05 billion divided into 5.05 billion common shares at par value of P1.00 per share.

This amendment and increase in capital stock were pursued in connection with the issuance of 4.10 billion shares of the Company in exchange for shares of stock in OneTaipan Holdings, Inc. ("OTHI") and Pacifica21 Holdings, Inc. ("P21") (the "Share Swap Transaction").



On December 20, 2019, the Company and the stockholders of OTHI and P21 entered into a Share Purchase Agreement, pursuant to which, the two major shareholder of the Company will acquire additional 4.10 billion shares of the Company at a price of P20 per share for a total purchase price of P82.00 billion. As consideration for its acquisition, the two major shareholders will exchange their respective ownership in OTHI and P21. Accordingly, the 2.10 billion shares with a P1.00 par value of the Company to be swapped with 86.40 million shares of OTHI with a par value of P100 per share while the 2.00 billion shares of Company to be swapped with 871.00 million common shares of P21 with a par value of P1.00 per share.

As a result of the Share Swap Transaction, the Company will legally and/or beneficially owns 67% of the outstanding shares of each of OTHI and P21. OTHI owns controlling shares in Monte Oro Grid Resources Corporation ("MOGRC"), which holds 30% plus one share in National Grid Corporation of the Philippines ("NGCP"). P21 owns controlling shares in Calaca High Power Corporation (CHPC), which in turn owns 30% minus one share in NGCP. The Share Swap Transaction was undertaken to formally consolidate the two major shareholder's ownership and control of NGCP through a common corporate structure. Accordingly, the effective ownership of the Company in NGCP will be 40.20%, with control of 60% voting rights through its subsidiaries MOGRC and CHPC.

On March 26, 2020, the proposed share-swap transaction was approved by the Philippine Competition Commission on the grounds that it will not likely result in substantial lessening of competition in the Philippine market.

On May 28, 2021, the SEC approved the increase in the Company's authorized capital stock from P50.00 million to P5.05 billion. Consequently, the 4.10 billion common shares for the share swap transaction were issued at a price of P20 per share on the same date. The incremental costs directly attributable to the issuance of common shares amounting to P206.66 million is recognized as a deduction from additional paid-in capital.

On June 30, 2021 and on August 10, 2021, the Company's BOD and stockholders, respectively, resolved and approved the increase in authorized capital stock from P5.05 billion to P5.30 billion, with the increase of 250.00 million to be divided into 250.00 million common shares at a par value of P1.00 per share.

This increase is for the Company to conduct a follow-on offering of its shares to achieve the target public float of twenty percent (20%) of the outstanding capital stock of the Company and for other business purposes.

The above increase was approved by the SEC on August 25, 2021. Consequently, of the 250.00 million increase in shares of the Company, 25% of which was subscribed and paid by the Company's major shareholders amounting to P62.50 million.

On August 10, 2021, the Company's BOD approved and authorized the offer and issuance of 1,053,500,000 common shares at an offer price of up to P29 per share, and also grants over-allotment option pursuant to which a stabilizing agent or its affiliate has the right to purchase up to 101 million common shares of the Company's owned by its major shareholders.

On August 12 and September 10, 2021, the Company's shareholders have also secured the Certificate Authorizing Registration with the Bureau of Internal Revenue (BIR) in order to transfer in the name of the Company the following shares:

- (i) 86,430,000 common shares in OTHI representing 67% of its total capital stock; and
- (ii) 871,000,000 common shares in P21 representing 67% of its total capital stock.

The details of the equity interest of the Company in its subsidiaries after the Share Swap are as follows:

	Percentage of Ownership		Country of Incorporation
	Direct	Indirect	
OneTaipan Holdings, Inc. ("OTHI")	67.0%	-	Philippines
Pacifica21 Holdings, Inc. ("P21")	67.0%	-	Philippines
Monte Oro Grid Resources Corporation ("MOGRC")*	-	67.0%	Philippines
Calaca High Power Corporation ("CHPC")**	-	67.0%	Philippines
National Grid Corporation of the Philippines ("NGCP")***	-	40.2%	Philippines

\* Indirectly owned through OTHI

\*\* Indirectly owned through P21

\*\*\* Indirectly owned through MOGRC and CHPC

OTHI is 67% directly owned subsidiary of the Company and was incorporated and registered with Philippine SEC on February 23, 2010. OTHI's primary purpose is to acquire by purchase, exchange, assignment or otherwise, and to sell, assign, transfer, exchange, lease, let, develop, mortgage, pledge, deal in and with and otherwise operate, enjoy and dispose of, all properties of every kind and description and whatever situated and to the extent permitted by law.

MOGRC is a wholly-owned subsidiary of OTHI and was incorporated and registered with Philippine SEC on August 29, 2006. MOGRC's primary purpose is to invest or hold interests in the shares of stocks of companies engaged in or proposing to engage in infrastructure projects, whether as proponent, equity investor or financial or technical advisor and to do all acts and things necessary to carry out the foregoing purpose.

P21 is 67% directly owned by the Company and was incorporated and registered with Philippine SEC on May 12, 2008. P21's purpose is to invest or acquire interest, purchase, own or hold directly or indirectly shares of stock, debentures or securities in other companies including related services and business activities.

CHPC is a wholly-owned subsidiary of P21 and was incorporated and registered with Philippine SEC on December 15, 2006. CHPC's primary purpose is to engage in the general business of operating, managing, maintaining, and rehabilitating energy systems and services from gas, steam and electricity including related services and business activities.

NGCP's common shares is 30%-owned each by MOGRC and CHPC. NGCP was incorporated in the Philippines and registered with Philippine SEC on February 21, 2008 primarily to operate and maintain a nationwide transmission grid throughout the Philippines; to provide open and non-discriminatory access to the transmission system to all authorized electricity distributors and electricity users; and to carry on all business incidental to the same.

On October 14, 2021, the listing of the Offer Shares was approved by the Philippine Stock Exchange. The Philippine SEC approved the listing of SGP on October 20, 2021.

On November 10, 2021 SGDPI, under the symbol "SGP", the Company publicly listed its 1,053,500,000 shares from its Follow-On Offering (FOO) on the Philippines Stock Exchange with overallotment option of up to 101,000,000 secondary shares at PHP 12.00 per common share.

On April 4, 2022, the Company used the proceeds of the FOO to subscribe to 203,630,000 non-voting preferred shares of National Grid Corporation of the Philippines (NGCP) with a par value of One Peso (PHP 1.00) per share at a subscription price of PHP 60.10/share or a total subscription price of P12,238,163,000.

The subscription will give the Company a direct shareholding in NGCP of 9.240% of the latter's outstanding capital stock. The Company will be entitled to dividends as a direct shareholder of NGCP, and this is in addition to the dividends that the Company already indirectly receives from NGCP through the holding entities.

On April 12, 2022, the Company paid P3,059,540,750, representing twenty-five percent (25%) of the total subscription price. On June 9, 2022, the Company paid the balance of the total subscription price in the amount of P9,178,622,250.

The Company indirectly controls 60% of the outstanding voting capital stock of NGCP, the Company's sole operating asset with an effective equity interest of 40.2%.

The Company's shares of stock are listed on the Philippine Stock Exchange (PSE) under the stock symbol "SGP".

The Company's registered office address is Unit 1602, 16th Floor, Tycoon Center Bldg. Condominium, Pearl Drive, Pasig City, Metro Manila.

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## **2. Basis of Preparation**

### Statement of Compliance

The separate financial statements have been prepared in compliance with Philippine Financial Reporting Standards (PFRS). PFRS are based on International Financial Reporting Standards issued by the International Accounting Standards Board (IASB). PFRS which are issued by the Philippine Financial Reporting Standards Council, consist of PFRS, Philippine Accounting Standards (PAS), and Philippine Interpretations.

The Company also prepares and issues consolidated financial statements for the same period as the separate financial statements prepared and presented in compliance with PFRSs. Said consolidated financial statements may be obtained from the SEC.

The separate financial statements were authorized for issue by the BOD on April 8, 2024.

### Basis of Measurement

The separate financial statements of the Company have been prepared on a historical cost basis of accounting.

### Functional and Presentation Currency

The separate financial statements are presented in Philippine peso, which is the Company's functional currency. All financial information presented in Philippine peso has been rounded off to the nearest peso, unless otherwise indicated.

#### Use of Judgments and Estimates

The preparation of the financial statements in conformity with PFRS requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, income and expenses. The estimates and assumptions used in the separate financial statements are based upon management's evaluation of relevant facts and circumstances as of the date of the separate financial statements. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised and in any future periods affected.

Judgments are made by management on the development, selection and disclosure of the Company's critical accounting policies and estimates and the application of these policies and estimates.

In particular, below is the information about significant areas of estimation uncertainty in applying accounting policies that have the most significant effect on the amounts recognized in the separate financial statements:

#### *Estimating Realizability of Deferred Tax Assets*

The Company reviews its deferred tax assets at each reporting date and reduces the carrying amount to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilized. The Company's assessment on the recognition of deferred tax assets on deductible temporary difference and carryforward benefits of Minimum Corporate Income Tax (MCIT) and Net Operating Loss Carry Over (NOLCO) is based on the projected taxable income within the prescription period.

The Company has not recognized the deferred tax assets amounting to P227,384,228 and P190,120,022 as at December 31, 2023 and 2022, respectively, since management does not expect to have sufficient taxable profit that will be available against which the Company can utilize the benefit therefrom (Note 12).

#### *Determining whether the Company has Control over its Investee Company*

The Company uses judgment in determining control over its investee. The Company controls the entity when it is exposed, or has rights, to variable returns from its involvement with the investee; has the ability to affect those returns through its power over the investee and there is a link between power and returns. The principle of control sets out the following three elements of control:

- power over the relevant activities of the investee;
- exposure, or rights, to variable returns from involvement with the investee; and
- the ability to use power over the investee to affect the amount of the investor's returns.

The Company assessed that it controls its investee company, OTHI, P21, and NGCP. Accordingly, the Company treats OTHI, P21, and NGCP as subsidiaries (Note 7).

### 3. Summary of Material Accounting Policies

The accounting policies set out below have been applied consistently to all years presented in these separate financial statements, except for the changes in accounting policies as explained below.

#### Adoption of Amendments to Standards

The Company has adopted the following amendments to standards starting January 1, 2023 and accordingly, changed its accounting policies. Except as otherwise indicated, the adoption did not have any significant impact on the Company's separate financial statements.

- Definition of Accounting Estimates (Amendments to PAS 8, *Accounting Policies, Changes in Accounting Estimates and Errors*). To clarify the distinction between changes in accounting policies and changes in accounting estimates, the amendments introduce a new definition for accounting estimates, clarifying that they are monetary amounts in the financial statements that are subject to measurement uncertainty. The amendments also clarify the relationship between accounting policies and accounting estimates by specifying that an accounting estimate is developed to achieve the objective set out by an accounting policy. Developing an accounting estimate includes both selecting a measurement technique and choosing the inputs to be used when applying the chosen measurement technique. The effects of changes in such inputs or measurement techniques are changes in accounting estimates. The definition of accounting policies remain unchanged. The amendments also provide examples on the application of the new definition.

The amendments will apply prospectively to changes in accounting estimates and changes in accounting policies occurring on or after the beginning of the first annual reporting period in which the amendments are applied.

- Disclosure of Accounting Policies (Amendments to PAS 1, *Presentation of Financial Statements* and PFRS Practice Statement 2, *Making Materiality Judgements*). The amendments are intended to help companies provide useful accounting policy disclosures. The key amendments to PAS 1 include:
  - requiring companies to disclose their material accounting policies rather than their significant accounting policies;
  - clarifying that accounting policies related to immaterial transactions, other events or conditions are themselves immaterial and as such need not be disclosed; and
  - clarifying that not all accounting policies that relate to material transactions, other events or conditions are themselves material to a company's financial statements.

The amendments to PFRS Practice Statement 2 includes guidance and additional examples on the application of materiality to accounting policy disclosures, assisting companies to provide useful, entity-specific accounting policy information that users need to understand other information in the financial statements.

- Deferred Tax related to Assets and Liabilities arising from a Single Transaction (Amendments to PAS 12, *Income Taxes*). The amendments clarify that the initial recognition exemption does not apply to transactions that give rise to equal taxable and deductible temporary differences such as leases and decommissioning obligations.

For leases and decommissioning liabilities, the associated deferred tax assets and liabilities will be recognized from the beginning of the earliest comparative period presented, with any cumulative effect recognized as an adjustment to retained earnings or other appropriate component of equity at that date. For all other transactions, the amendments apply to transactions that occur after the beginning of the earliest period presented.

- International Tax Reform - Pillar Two Model Rules (Amendments to PAS 12). The amendments provide a temporary mandatory exception from accounting for deferred tax that arises from legislation implementing the Pillar Two model rules published by the Organisation for Economic Co-operation and Development, including tax law that implements qualified domestic minimum top-up taxes described in those rules. Under the relief, a Company:
  - discloses that it has applied the exception to recognizing and disclosing information about deferred tax assets and liabilities related to Pillar Two income taxes;
  - discloses separately its current tax expense (income) related to Pillar Two income taxes; and
  - in periods in which Pillar Two legislation is enacted or substantively enacted but not yet in effect, discloses known or reasonably estimable information that helps users of financial statements understand the entity's exposure to Pillar Two income taxes arising from that legislation.

#### Financial Instruments

*Non-derivative Financial Instruments.* Non-derivative financial instruments consist of cash and cash equivalents, accrued expenses and other current liabilities (excluding government payables) and dividends payable.

*Recognition and Initial Measurement.* All other financial assets and financial liabilities are initially recognized when the Company becomes a party to the contractual provisions of the instrument.

A financial asset (unless it is a trade receivable without a significant financing component) or financial liability is initially measured at fair value plus, for an item not at Fair Value through Profit or Loss (FVTPL), transaction costs that are directly attributable to its acquisition or issue. A trade receivable without a significant financing component is initially measured at the transaction price.

#### Financial Assets

*Classification and Subsequent Measurement.* On initial recognition, the Company classifies its financial assets in the following measurement categories: amortized cost; fair value through other comprehensive income (FVOCI) - debt investment; FVOCI - equity investment; or FVTPL.

The classification depends on the Company's business model for managing the financial assets and the contractual terms of the cash flows.

The Company has no financial assets classified as measured at: FVOCI - debt investment or FVOCI - equity investment.

Financial assets are not reclassified subsequent to their initial recognition unless the Company changes its business model for managing financial assets, in which case all affected financial assets are reclassified on the first day of the first reporting period following the change in the business model.



A financial asset is measured at amortized cost if it meets both of the following conditions and is not designated as at FVTPL:

- It is held within a business model whose objective is to hold assets to collect contractual cash flows; and
- Its contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

The amortized cost is reduced by impairment losses. Interest income, foreign exchange gains and losses and impairment are recognized in profit or loss. Any gain or loss on derecognition is recognized in profit or loss.

Included in this category are the Company's cash and cash equivalents (Notes 4 and 13).

Cash includes cash on hand and in banks which are stated at amortized cost equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash with original maturities of three months or less from dates of acquisition and are subject to an insignificant risk of changes in value.

On initial recognition, an entity may choose to designate a financial asset that would otherwise qualify for amortized cost or FVOCI classification as at FVTPL. This optional designation is permitted only if it eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise from measuring financial assets or financial liabilities, or recognizing gains or losses on them, on different bases.

*Business Model Assessment.* The Company makes an assessment of the objective of the business model in which a financial asset is held at a portfolio level because this best reflects the way the business is managed and information is provided to management. The information considered includes:

- a. the stated policies and objectives for the portfolio and the operation of those policies in practice. These include whether management's strategy focuses on earning contractual interest income, maintaining a particular interest rate profile, matching the duration of the financial assets to the duration of any related liabilities or expected cash outflows or realizing cash flows through the sale of the assets;
- b. how the performance of the portfolio is evaluated and reported to the Company's management;
- c. the risks that affect the performance of the business model (and the financial assets held within that business model) and how those risks are managed;
- d. how managers of the business are compensated - e.g., whether compensation is based on the fair value of the assets managed or the contractual cash flows collected; and
- e. the frequency, volume and timing of sales of financial assets in prior periods, the reasons for such sales and expectations about future sales activity.

*Solely Payments of Principal and Interest Assessment.* Principal is defined as the fair value of the financial asset on initial recognition. 'Interest' is defined as consideration for the time value of money and for the credit risk associated with the principal amount outstanding during a particular period of time and for other basic lending risks and costs (e.g. liquidity risk and administrative costs), as well as a profit margin. In assessing whether the contractual cash flows are solely payments of principal and interest, the Company considers the contractual terms of the instrument. This includes assessing whether the financial asset contains a contractual term that could change the timing or amount of contractual cash flows such that it would not meet this condition. In making this assessment, the Company considers:

- contingent events that would change the amount or timing of cash flows;
- terms that may adjust the contractual coupon rate, including variable-rate features;
- prepayment and extension features; and
- terms that limit the Company's claim to cash flows from specified assets (e.g. non-recourse features).

#### Investments in Subsidiaries

A subsidiary is an entity controlled by the Company. The Company controls an entity when it is exposed to, or has right to, variable returns from its involvement with the entity and has the ability to affect those returns over its power to the entity. The Company reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control.

Investments in subsidiaries are stated at cost less impairment in value, if any, in the separate statements of financial position. Dividends are recognized from a subsidiary in profit or loss when its right to receive the dividend is established. When the Company loses control over a subsidiary, any interest retained in the former subsidiary is measured at fair value.

#### Financial Liabilities

*Classification, Subsequent Measurement and Gains and Losses.* Financial liabilities are classified as measured at amortized cost or FVTPL. A financial liability is classified as at FVTPL if it is classified as held-for-trading, it is a derivative or it is designated as such on initial recognition. Financial liabilities at FVTPL are measured at fair value and net gains and losses, including any interest expense, are recognized in profit or loss. Other financial liabilities are subsequently measured at amortized cost using the effective interest method. Interest expense and foreign exchange gains and losses are recognized in profit or loss. Any gain or loss on derecognition is also recognized in profit or loss.

Included under other financial liabilities are accrued expenses and other current liabilities (excluding payables to government), dividends payable and advances from shareholders.

#### 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 when:

- the rights to receive cash flows from the asset have expired;

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

When the Company has transferred its right to receive cash flow from an asset and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognized to the extent of the Company's continuing involvement in the asset. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset or the maximum amount of consideration that the Company could be required to pay.

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

When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability. The difference in the respective carrying amounts is recognized in profit or loss.

#### Offsetting Financial Instruments

Financial assets and financial liabilities are offset and the net amount is reported in the separate statements of financial position if, and only if, there is a currently enforceable legal 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. This is not generally the case with master netting agreements, where the related assets and liabilities are presented at gross in the separate statements of financial position.

#### Determination of Fair Value

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 most advantageous market must be accessible to the Company.

The fair value of an asset or 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.

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

All assets and liabilities for which fair value is measured or disclosed in the separate 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 prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly; and
- Level 3: inputs for the asset or liability that are not based on observable market data.

For assets and liabilities that are recognized in the separate financial statements on a recurring basis, the Company determines whether transfers have occurred between levels in the hierarchy by re-assessing the categorization at the end of each reporting period.

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

#### Capital Stock

##### *Common Shares*

Common shares are classified as equity. Incremental costs directly attributable to the issue of common shares are recognized as a deduction from equity, net of any tax effects.

##### *Additional Paid-in Capital*

The amount of contribution in excess of par value is accounted for as "Additional paid-in capital." Any transaction costs associated with the issuance of shares are deducted from additional paid-in capital, net of any related income tax benefit.

#### Earnings Per Share

Basic Earnings Per Share (EPS) is calculated by dividing income applicable to common shares by the weighted average number of common shares outstanding during the year with retroactive adjustments for stock dividends, if any. Diluted EPS is computed in the same manner as basic EPS, however, net income attributable to common shares and the weighted average number of shares outstanding are adjusted for the effects of all dilutive potential common shares, if any.

#### Operating Segment

A segment is a distinguishable component of the Company that is engaged either in providing related products or services (business segment), or in providing products or services within a particular economic environment (geographical segment), which is subject to risks and rewards that are different from those other segments.

The Company, having no operations, assessed that it has no reportable segment. Accordingly, the Company does not present segment information.

#### Revenue Recognition

##### *Revenue from Contracts with Customers*

The Company recognizes management income from its related parties. Management income, which is derived from management consulting and financial advisory services, is recognized over time at a monthly fixed rate as the services are provided and are due on demand.

#### *Interest Income*

Interest income from cash in banks is recognized on a time proportion basis, taking into account the principal outstanding and the effective rate over the period of maturity. It is subject to final withholding tax and is presented at gross amount and the tax paid or withheld is included in income tax expense.

#### Expense Recognition

Expenses are recognized when decrease in future economic benefits related to a decrease in an asset or an increase of a liability has arisen that can be measured reliably. Expenses are recognized when they are incurred.

#### Taxes

Income tax on the profit or loss for the year is composed of current and deferred income tax. Income tax is recognized in profit or loss except to the extent that it relates to items recognized directly in equity or in other comprehensive income.

#### *Current Tax*

Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the tax authority. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted by the end of the reporting period.

#### *Deferred Tax*

Deferred tax assets and liabilities are recognized in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes and the carryforward tax benefits of the NOLCO and the excess of MCIT over the Regular Corporate Income Tax (RCIT). The amount of deferred tax provided is based on the expected manner of realization or settlement of the carrying amount of assets and liabilities, carryforward benefits of NOLCO and MCIT, using tax rates enacted or substantively enacted by the end of the reporting period.

Deferred tax is not recognized for:

- temporary differences on the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit or loss;
- temporary differences related to investments in subsidiaries and jointly controlled entities to the extent that it is probable that they will not reverse in the foreseeable future; and
- taxable temporary differences arising on the initial recognition of goodwill.

Deferred tax assets are recognized for carryforward tax benefits of unused NOLCO, unused tax credits from excess MCIT and deductible temporary differences to the extent that it is probable that future taxable profits will be available against which they can be used. Future taxable profits are determined based on the reversal of relevant taxable temporary differences. If the amount of taxable temporary differences is insufficient to recognize a deferred tax asset in full, then future taxable profits, adjusted for reversals of existing temporary differences, are considered, based on the business plans of the Company. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized. Unrecognized deferred tax assets are reassessed at each reporting date and are recognized to the extent that it has become probable that future taxable income will allow the deferred tax assets to be recognized.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realized or the liability is settled, based on tax rates that have been enacted or substantively enacted by the end of the reporting period.

In determining the amount of current and deferred tax, the Company takes into account the impact of uncertain tax positions and whether additional taxes and interest may be due. The Company believes that its accrual for tax liabilities are adequate for all open tax years based on its assessment of many factors, including interpretations of tax law and prior experience. This assessment relies on estimates and assumptions and may involve a series of judgments about future events. New information may become available that causes the Company to change its judgment regarding the adequacy of existing tax availabilities; such changes to tax liabilities will impact tax expense in the period that such a determination is made.

Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets, and they relate to income taxes levied by the same tax authority on the same taxable entity.

*Value Added Tax (VAT).* Revenues, expenses and assets are recognized net of the amount of VAT, except:

- where the tax incurred on a purchase of assets or services is not recoverable from the taxation authority, in which case the tax is recognized as part of the cost of acquisition of the asset or as part of the expense item as applicable; and
- receivables and payables that are stated with the amount of tax included.

#### Related Party Transactions and Relationship

Related party relationship exists when one party has the ability to control, directly or indirectly through one or more intermediaries, the other party or exercise significant influence over the other party in making financial and operating decisions. Such relationship also exists between and/or among entities which are under common control with the reporting enterprise, between and/or among entities which are under control with reporting enterprise and its Key Management Personnel (KMP), directors, or the entity, or any member of the group of which it is part, that provides key management personnel services to the reporting entity.

#### Provisions

Provisions are recognized when the Company has: (a) a present obligation (legal or constructive) as a result of past event; (b) it is probable (i.e., more likely than not) that an outflow of resources embodying economic benefits will be required to settle the obligation; and (c) a reliable estimate can be made of the amount of the obligation. 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 those 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. Where some or all of the expenditures required to settle a provision are expected to be reimbursed by another party, the reimbursement shall be recognized when, and only when, it is virtually certain that reimbursement will be received if the entity settles the obligation. The reimbursement shall be treated as a separate asset. The amount recognized for the reimbursement shall not exceed the amount of the provision. Provisions are reviewed at each reporting date and adjusted to reflect the current best estimate.

#### Contingencies

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

#### Events After the Reporting Date

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

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#### **4. Cash**

This account at December 31 consists of:

	<i>Note</i>	<b>2023</b>	<b>2022</b>
Cash on hand		<b>P50,000</b>	P50,000
Cash in banks		<b>33,926,554</b>	649,826,953
Short-term placements		<b>290,451,067</b>	1,081,265,600
	<b>13</b>	<b>P324,427,621</b>	P1,731,142,553

Cash in banks earn annual interest at the respective bank's deposit rates. Short-term placements represent money market placements made for varying periods up to three (3) months which can be withdrawn at any time depending on the immediate cash requirements of the Company and earn interest rates at the respective short-term investment rates.

Interest income from cash in banks and short-term placements amounted to P32,173,419 and P54,384,378 in 2023 and 2022, respectively (Note 11).

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#### **5. Other Current Assets**

This account at December 31 consists of the following:

		<b>2023</b>	<b>2022</b>
Creditable withholding tax		<b>P23,003,290</b>	P16,523,974
Advances to employees		<b>641,575</b>	20,000
Prepaid rent		<b>273,388</b>	273,881
Security deposit	<b>13</b>	<b>235,785</b>	233,785
Input tax		<b>-</b>	407,820
Others		<b>10,809</b>	30,000
		<b>P24,164,847</b>	P17,489,460

Advances to employees include salary loan made by employees which are recoverable through salary deduction. The payment term is normally within one year.

The Company entered into various lease agreements for its office and parking spaces for a period of one year or less, renewal of which are subject to mutual agreement of the parties. Prepaid rent and security deposit related to these leases amounted to P273,388 and P235,785 as of December 31, 2023 and P273,881 and P233,785 as of December 31, 2022, respectively. Security deposit related to office space is refundable upon expiration of the contract. Rent expense relating to these leases amounted to P1,504,204 and P1,358,770 in 2023 and 2022, respectively were recorded as part of "Rent" in the separate statements of comprehensive income.

## 6. Property and Equipment - net

The movements and balances of this account are as follows:

	Furniture and Fixtures	Office Equipment	Computer Equipment	Automobiles and Vehicles	Computer Software	Office Improvement	Total
<b>Cost</b>							
January 1, 2022	P318,816	P457,908	P207,518	P1,182,143	P474,956	P966,903	P3,608,244
Additions	141,445	167,231	-	-	-	594,774	903,450
Disposals	-	-	-	(1,182,143)	-	-	(1,182,143)
December 31, 2022	460,261	625,139	207,518	-	474,956	1,561,677	3,329,551
Additions	5,857	14,184	-	-	-	-	20,041
December 31, 2023	466,118	639,323	207,518	-	474,956	1,561,677	3,349,592
<b>Accumulated Depreciation</b>							
January 1, 2022	60,563	48,017	207,518	1,182,143	474,956	48,345	2,021,542
Depreciation	125,149	186,626	-	-	-	272,684	584,459
Disposals	-	-	-	(1,182,143)	-	-	(1,182,143)
December 31, 2022	185,712	234,643	207,518	-	474,956	321,029	1,423,858
Depreciation	142,492	205,341	-	-	-	312,335	660,168
December 31, 2023	328,204	439,984	207,518	-	474,956	633,364	2,084,026
<b>Net Carrying Amount</b>							
December 31, 2022	P274,549	P390,496	P -	P -	P -	P1,240,648	P1,905,693
December 31, 2023	P137,914	P199,339	P -	P -	P -	P928,313	P1,265,566

Management believes that there are no indications that property and equipment are impaired or their carrying value may not be recoverable as at December 31, 2023.

## 7. Investment in Subsidiaries

The carrying amount of investment in subsidiaries are as follows:

	Percentage of Ownership		Amount	Country of Incorporation
	Direct	Indirect		
OneTaipan Holdings, Inc.	67.00	-	P41,004,000,000	Philippines
Pacifica21 Holdings, Inc.	67.00	-	41,004,000,000	Philippines
Monte Oro Grid Resources Corporation	-	67.00		Philippines
Calaca High Power Corporation	-	67.00		Philippines
National Grid Corporation of the Philippines	9.24	40.20	12,238,163,000	Philippines
			<b>P94,246,163,000</b>	



As discussed in Note 1, OTHI was incorporated and registered with the SEC on February 23, 2010. Its primary purpose is to acquire by purchase, exchange, assignment or otherwise, and to sell, assign, transfer, exchange, lease, let, develop, mortgage, pledge, deal in and with and otherwise operate, enjoy and dispose of, all properties of every kind and description and wherever situated and to the extent permitted by law. The registered office of OTHI is at One Esplanade, Seaside cor. J.W. Diokno Blvd., SM Mall of Asia Complex, Pasay City.

MOGRC is a wholly-owned subsidiary of OTHI and was incorporated and registered with Philippine SEC on August 29, 2006. The Company indirectly owned 67% of MORGC through its investment in OTHI.

Following is the financial information of OTHI as at and for the years ended December 31, 2023 and 2022:

	2023	2022
Current assets	P19,406,713	P52,763,678
Noncurrent asset	28,464,000,000	28,464,000,000
Current liability	(703,140)	(27,316,108)
Noncurrent liability	-	(18,992)
Net assets	P28,482,703,573	P28,489,428,578
Income	P1,084,815,546	P3,330,916,599
Expenses	(12,430,535)	(16,131,560)
Foreign exchange (loss)/gain - net	(7,868)	75,969
Income tax benefit/(expense)	17,852	(9,691)
Net income/total comprehensive income	P1,072,394,995	P3,314,851,317

As discussed in Note 1, P21 was incorporated and registered with the SEC on May 12, 2008. Its purpose is to invest or acquire interest, purchase, own or hold directly or indirectly shares of stock, debentures or securities in other companies including related services and business activities. The registered office of Pacifica 21 is at 201 EDSA, Mandaluyong City.

CHPC is a wholly-owned subsidiary of P21 and was incorporated and registered with Philippine SEC on December 15, 2006. The Company indirectly owned 67% of CHPC through its investment in P21.

Following is the financial information of P21 as at and for the years ended December 31, 2023 and 2022:

	2023	2022
Current assets	P6,612,897	P15,011,957
Noncurrent asset	3,150,750,000	3,150,750,000
Current liability	(843,978,629)	(845,038,466)
Noncurrent liability	-	(25,772)
Net assets	P2,313,384,268	P2,320,697,719
Income	P1,084,221,340	P3,330,546,412
Expenses	(12,428,349)	(12,651,109)
Foreign exchange (loss)/gain - net	(10,668)	103,088
Income tax benefit/(expense)	24,226	(13,148)
Net income/total comprehensive income	P1,071,806,549	P3,317,985,243

NGCP's common shares is 30%-owned each by MOGRC and CHPC. NGCP was incorporated in the Philippines and registered with Philippine SEC on February 21, 2008. Its purpose is to operate and maintain a nationwide transmission grid throughout the Philippines, to provide open and non-discriminatory access to the transmission system to all authorized electricity distributors and electricity users, and to carry on all business incidental to the same. The Company indirectly owned 40.20% of NGCP through its investments in MOGRC and CHPC.

Upon signing of the Subscription Contract on the non-voting preferred shares of NGCP, the Company paid 25% of its total subscription of P12,238,163,000, amounting to P3,059,540,750 on April 12, 2022, and paid the remaining 75% balance of the total subscription amounting to P9,178,622,250 on June 9, 2022. The subscription will give the Company a direct shareholding in NGCP of 9.240% of the latter's outstanding capital stock.

Following is the financial information of NGCP as at and for the years ended December 31, 2023 and 2022:

	2023	2022
Current assets	P49,440,661,356	P51,239,683,126
Noncurrent asset	405,856,855,265	353,917,048,435
Current liability	(85,580,248,970)	(75,781,028,845)
Noncurrent liability	(224,283,975,891)	(203,057,376,007)
Net assets	P145,433,291,760	P126,318,326,709
Income	P52,999,780,707	P61,821,367,993
Expenses	(23,530,378,891)	(20,582,298,067)
Other charges - net	(6,035,366,068)	(6,525,718,615)
Other comprehensive income/(loss)	(319,070,697)	239,273,933
Net income/total comprehensive income	P23,114,965,051	P34,952,625,244

Dividend income received from the Company's subsidiaries amounted to P1.82 billion and P5.28 billion, in 2023 and 2022, respectively (Note 9).

#### 8. Accrued Expenses and Other Current Liabilities

This account at December 31 consists of:

	Note	2023	2022
Accrued expenses	13	P1,332,257	P1,230,000
Government payables		2,546,889	142,826,417
		P3,879,146	P144,056,417

Accrued expenses consist mainly of professional fees.

Government payables include withholding taxes payable to various government agencies.

## 9. Related Party Transactions

The Company's balances and transactions with related parties as at December 31 are as follows:

Relationship with Related Parties	Note	Year	Amounts of Transactions	Receivables	Dividends Payable	Terms and Conditions
<b>Subsidiaries</b>						
▪ Dividend Income						
OneTaipan Holdings, Inc.	7	2023	P723,010,400	P -	P -	
		2022	2,224,748,400	-	-	
Pacifica21 Holdings, Inc.	7	2023	723,010,400	-	-	
		2022	2,224,748,400	-	-	
National Grid Corporation of the Phils.	7	2023	369,600,000	-	-	
		2022	831,600,000	-	-	
▪ Management Fee						
Monte Oro Grid Resources Corporation	a	2023	12,000,000	2,550,000	-	Payable quarterly at the end of each quarter; no impairment
		2022	12,000,000	-	-	
Calaca High Power Corporation	a	2023	12,000,000	2,550,000	-	Payable quarterly at the end of each quarter; no impairment
		2022	12,000,000	-	-	
OneTaipan Holdings, Inc.	a	2023	12,000,000	-	-	Payable quarterly at the end of each quarter
		2022	12,000,000	-	-	
Pacifica21 Holdings, Inc.	a	2023	12,000,000	-	-	Payable quarterly at the end of each quarter
		2022	12,000,000	-	-	
<b>Shareholders</b>						
▪ Dividends	10	2023	1,829,361,847	-	5,953,554	
		2022	5,265,866,000	-	1,235,526,797	
Short-term Employee Benefits	b	2023	40,823,257	-	-	
		2022	39,058,978	-	-	
	13	2023		P5,100,000	P5,953,554	
	13	2022		P -	P1,235,526,797	

- a. On January 1, 2019, the Company entered into a Shared Services Agreement with MOGRC and CHPC. The Company shall render monthly management consulting and financial advisory services to MOGRC and CHPC for a period of three (3) years commencing January 1, 2019, unless otherwise cancelled or extended by mutual agreement of both parties. In consideration of the services rendered, the Company shall receive a monthly fee of P500,000 from each entity.

On January 22, 2020, the Shared Services Agreement was amended to include the one-time share of MOGRC and CHPC in the professional fees incurred by the Company in relation to the ongoing processing of share swap transactions amounting to a total of P16,506,190.

On March 15, 2022, the Shared Services Agreement was replaced with a new Shared Services Agreement with MOGRC, CHPC, OTHI and P21, wherein the Company shall render monthly management, consulting and financial advisory services for a period of five (5) years commencing January 1, 2022, unless otherwise cancelled or extended by mutual agreement of the Company and any of the parties. In consideration of the services rendered, the Company shall receive a monthly fee of P1,000,000 from each entity. As at December 31, 2023, the Company has receivables from related parties amounted to P5,100,000.

- b. Short-term employee benefits are included under "Salaries and other employee benefits" account in the separate statements of profit or loss and other comprehensive income.

Related party transactions are normally settled in cash.

## 10. Equity

### Paid-up Capital

Paid-up capital at December 31 consists of:

	Years Ended December 31			
	2023		2022	
	Shares	Amount	Shares	Amount
Authorized - P1 par value per share	5,300,000,000	P5,300,000,000	5,300,000,000	P5,300,000,000
Issued, fully paid and outstanding balance at end of year	5,265,866,000	P5,265,866,000	5,265,866,000	P5,265,866,000
Additional Paid-in Capital		88,928,018,694		88,928,018,694
Total paid-up capital		P94,193,884,694		P94,193,884,694

As at December 31, 2023 and 2022, the Company's stock price is P6.55 and P11.10 respectively.

### Retained Earnings

#### Cash Dividends

On August 10, 2021, the BOD of the Company approved the adoption of the policy to declare dividends equivalent to up to 100% of the prior year's net income after tax based on the Company's audited separate financial statements as of such year, upon declaration of the BOD and subject to the availability of unrestricted retained earnings and settlement of operational expenses and other relevant taxes, cost and expense required to pay the ordinary course of business and subject to any financing covenants, if applicable.

On September 27, 2021, the Board of Directors of the Company approved the declaration of P0.2375 dividend per share for each of the second and third quarter of 2021 totaling to P0.475 dividend per share amounting to P2.00 billion. These cash dividends were paid to shareholders of record as at October 11, 2021 on October 18, 2021. Out of the cash dividends declared for the 2nd and 3rd quarter, P1.41 million is still outstanding as of December 31, 2023.

On November 19, 2021, the BOD of the Company approved the declaration of P0.20 cash dividends per share for the fourth quarter of 2021 totaling to P1.05 billion. These cash dividends were paid to shareholders of record as of December 14, 2021 on January 10, 2022. Out of the cash dividends declared for the 4th quarter P598 thousand is still outstanding as of December 31, 2023.

On March 23, 2022, the BOD of the Company approved the declaration of P0.22 cash dividends per share for the first quarter of 2022 totaling to P1.16 billion. These cash dividends were paid to shareholders of record as of April 6, 2022 on April 26, 2022. Out of the cash dividends declared for the 1st quarter P642 thousand is still outstanding as of December 31, 2023.

On June 22, 2022, the BOD of the Company approved the declaration of P0.26 cash dividends per share for the second quarter of 2022 totaling to P1.37 billion. These cash dividends were paid to shareholders of record as of July 6, 2022 on July 22, 2022. Out of the cash dividends declared for the 2nd quarter P762 thousand is still outstanding as of December 31, 2023.

On September 21, 2022, the BOD of the Company approved the declaration of P0.26 cash dividends per share for the third quarter of 2022 totaling to P1.37 billion. These cash dividends were paid to shareholders of record as of October 5, 2022 on October 19, 2022. Out of the cash dividends declared for the 3rd quarter P763 thousand is still outstanding as of December 31, 2023.

On December 7, 2022, the BOD of the Company approved the declaration of P0.26 cash dividends per share for the fourth quarter of 2022 totaling to P1.37 billion. These cash dividends were paid to shareholders of record as of December 22, 2022 on January 13, 2023. Out of the cash dividends declared for the 4th quarter P761 thousand is still outstanding as of December 31, 2023.

On March 8, 2023, the BOD of the Company approved the declaration of P0.1737 cash dividends per share for the 1st quarter of 2023 totaling to P914.68 million. These cash dividends were paid to shareholders of record as of March 23, 2023 on April 13, 2023. Out of the cash dividends declared for the 1st quarter P509 thousand is still outstanding as of December 31, 2023.

On June 21, 2023, the BOD of the Company approved the declaration of P0.1737 cash dividends per share for the second quarter of 2023 totaling to P914.68 million. These cash dividends were paid to shareholders of record as of July 6, 2023 on July 21, 2023. Out of the cash dividends declared for the 2nd quarter P509 thousand is still outstanding as of December 31, 2023.

#### *Subsequent Event*

On March 27, 2024, the Company received dividends from its non-voting preferred shares in NGCP amounting to P369.60 million and a total of P1.41 billion from OTHI and P21 common shares on April 2, 2024. On April 8, 2024, the BOD of the Company approved the declaration of P0.3474 cash dividends per share for the 1<sup>st</sup> quarter of 2024 amounting to P1.83 billion. These cash dividends will be paid to shareholders of record as of April 26, 2024 on May 10, 2024.

## **11. Interest Income**

Interest income consists of income from:

	<i>Note</i>	<b>2023</b>	<b>2022</b>
Cash in banks	4	<b>P50,378</b>	P104,836
Short-term placements	4	<b>32,123,041</b>	54,279,542
UITF investment		<b>742,463</b>	30,687,110
		<b>P32,915,882</b>	P85,071,488

In 2023 and 2022, the Company earned interest income from investments in Unit Investment Trust Fund (UITF). UITF represents funds entrusted to a financial institution for the purpose of maximizing the yield on investible funds. As at December 31, 2023 and 2022, the Company has no outstanding UITF investment.

## 12. Income Tax

The components of taxes are as follows:

	2023	2022
Current tax	<b>P720,684</b>	P480,212
Deferred tax expense (benefit)	<b>(11,404)</b>	6,095
Final tax on interest income	6,583,173	17,014,294
	<b>P7,292,453</b>	P17,500,601

Current income tax expense of the Company in 2023 and 2022 represents MCIT amounting to P720,684 and P480,212 which was computed based on the new tax rate of 1.5% and 1%.

The reconciliation of the taxes computed at the statutory income tax rate to the taxes as shown in profit or loss follows:

	2023	2022
Income before income tax	<b>P1,810,836,546</b>	P5,330,136,041
Tax on income at statutory tax rate	<b>P452,709,137</b>	P1,332,534,010
Tax effects of:		
Dividend income	(453,905,200)	(1,320,274,200)
Interest income subjected to final tax	(8,228,971)	(21,267,872)
Final tax on interest income	6,583,173	17,014,294
Movement in unrecognized deferred tax	10,134,065	9,494,217
Nondeductible expense	249	152
	<b>P7,292,453</b>	P17,500,601

The Company did not recognize the deferred tax assets in respect of the following items since management does not expect the Company to have sufficient taxable profit that will be available against which the Company can utilize the benefit there from:

	2023	2022
NOLCO	<b>P224,726,185</b>	P188,409,810
MCIT	1,320,896	600,212
Accrued expenses	2,562,259	1,230,000
Foreign exchange loss	4,890	-
	<b>P228,614,230</b>	P190,240,022

As at December 31, 2023 and 2022, the movement in the Company's deferred tax liability is as follows:

	2023	2022
Beginning balance	<b>P11,404</b>	P5,309
Deferred tax on unrealized foreign exchange gain	-	6,095
Reversal of deferred tax liability	<b>(11,404)</b>	-
	<b>P -</b>	P11,404

The Company has NOLCO that can be claimed as deduction from future taxable income as follows:

Year Incurred	Expiry	Amount	Expired	Balance	
				2023	2022
2021	2026*	P153,583,793	P -	P153,583,793	P153,583,793
2022	2025	34,826,017	-	34,826,017	34,826,017
2023	2026	36,316,375	-	36,316,375	-
		P224,726,185	P -	P224,726,185	P188,409,810

*\*Per Section 4 of Revenue Regulations No. 25-2020 of Bureau of Internal Revenue provides that businesses or enterprises which incurred net operating loss for taxable years 2020 and 2021 shall be allowed to carry over the same as a deduction from gross income for the next five (5) consecutive taxable years, immediately following the year of such loss, unless otherwise disqualified.*

The Company has carryforward benefit of MCIT which can be claimed as tax credits against future income tax liabilities. Details of MCIT are as follows:

Year Incurred	Expiry Date	Beginning Balance	Additions	Expired	Ending Balance
2021	December 31, 2024	P120,000	P -	P -	P120,000
2022	December 31, 2025	480,212	-	-	480,212
2023	December 31, 2026	-	720,684	-	720,684
		P600,212	P720,684	P -	P1,320,896

### 13. Financial Risks and Capital Management Objectives and Policies

The Company's separate financial instruments comprise of cash and cash equivalents, due from related parties, security deposits, accrued expenses and other current liabilities (excluding government payables) and dividends payable.

The Company has exposure to credit risk and liquidity risk primarily from its use of financial instruments.

This note presents information about the Company's exposure to each of the foregoing risks, the Company's objectives, policies and processes for measuring and managing these risks, and the Company's management of capital.

The Company's aim is to achieve an appropriate balance between risk and return and minimize potential adverse effects on the Company's financial performance. The BOD provides written principles for overall risk management.

The BOD constituted the Company's Audit Committee which has oversight responsibility over Company's corporate governance process relating to the: (a) quality and integrity of the Company's separate financial statements and financial reporting process and the Company's system of internal accounting and financial controls; (b) annual independent audit of the Company's separate financial statements; (c) compliance by the Company with legal and regulatory requirements, including the Company disclosures control and procedures; and (d) evaluation of management's process to access and manage the Company's enterprise risk issues.

#### Credit Risk

Credit risk is the risk of financial loss to the Company if a customer or counterparty to a financial instrument fails to meet its contractual obligations and arises principally from cash.

The maximum credit risk exposure of the Company is its cash and cash equivalents, due from related parties and security deposit amounting to P329,713,406 and P1,731,326,338 as at December 31, 2023 and 2022, respectively. These excludes cash on hand amounting to P50,000 as at December 31, 2023 and 2022 (Notes 4, 5 and 9).

The credit qualities of financial assets are determined as follows:

- High grade financial assets are those assessed as having minimal credit risk, otherwise, they are of standard quality.

As at December 31, 2023 and 2022, the credit quality of the Company's cash and cash equivalents and due from related parties are high grade given that the credit risk for cash and cash equivalents and due from related parties is considered negligible since the counterparties are reputable entities with high quality external credit rating.

- Standard grade pertains financial assets with satisfactory financial capability and credit standing based but with some elements of risks where certain measure of control is necessary in order to mitigate risk of default. The credit risk of security deposit is considered standard grade based on historical experience of collectability from the counterparties.

Impairment on cash and cash equivalents, due from related parties and security deposit has been measured on a 12-month expected loss basis and reflects the short maturities of the exposures. The Company considers that cash and cash equivalents, due from related parties and security deposit have low credit risk based on the external credit ratings of the counterparties and any ECL is expected to be immaterial.

#### Liquidity Risk

Liquidity risk is the risk that the Company will be unable to meet its payment obligations associated with its financial liabilities when they fall due and to replace funds when they are withdrawn. The consequence may be the failure to meet obligations to repay creditors and fulfill commitments.

To manage liquidity risk, the Company maintains sufficient liquid assets to meet its maturing obligations and to meet current operating requirements.

The table below summarizes the maturity profile of the Company's financial assets and financial liabilities based on contractual undiscounted payments used for liquidity management as at December 31, 2023 and 2022.

	Note	2023			
		Carrying Amount	Contractual Cash Flows	Within 1 Year	More than 1 Year
<b>Financial Asset</b>					
Cash and cash equivalents	4	P324,427,621	P324,427,621	P324,427,621	P -
Due from related parties	9	5,100,000	5,100,000	5,100,000	-
Security deposit	5	235,785	235,785	235,785	-
<b>Financial Liabilities</b>					
Accrued expenses and other current liabilities*	8	1,332,257	1,332,257	1,332,257	-
Dividends payable		5,953,554	5,953,554	5,953,554	-

\*Excluding government payables amounting to P2,546,889.



	Note	2022			
		Carrying Amount	Contractual Cash Flows	Within 1 Year	More than 1 Year
Financial Asset					
Cash and cash equivalents	4	P1,731,142,553	P1,731,142,553	P1,731,142,553	P -
Security deposit	5	233,785	233,785	233,785	-
Financial Liabilities					
Accrued expenses and other current liabilities*	8	1,230,000	1,230,000	1,230,000	-
Dividends payable		1,235,526,797	1,235,526,797	1,235,526,797	-

\*Excluding government payables amounting to P142,826,417.

#### Fair Value of Financial Assets and Liabilities

The carrying amounts of the Company's financial assets and financial liabilities at reporting dates approximate their fair values considering that these have short-term maturities.

#### Capital Management

The Company defines capital as capital stock, additional paid-in capital and retained earnings as shown in the separate statements of financial position.

Management's objectives in managing capital are to safeguard the Company's ability to continue as a going concern so that it can continue to provide returns to its shareholders and to maintain an optimal capital structure to reduce the cost of capital.

There were no changes in the Company's approach to capital management during the year.

The Company's current ratio, calculated as total current asset over total current liabilities, and debt-to-equity ratio, calculated as total liabilities over equity, as at December 31, 2023 and 2022 are as follows:

#### Current Ratio

	2023	2022
Current asset	P353,692,468	P1,748,632,013
Current liabilities	9,832,700	1,379,583,214
	35.97:1.00	1.27:1.00

#### Debt-to-Equity Ratio

	2023	2022
Total liabilities	P9,832,700	P1,379,594,618
Total equity	94,591,288,334	94,617,106,088
	0.00:1.00	0.01:1.00

**14. Supplementary Information Required Under Revenue Regulations No. 15-2010 of the Bureau of Internal Revenue (BIR)**

In addition to the disclosures mandated under PFRS, and such other standards and/or conventions as may be adopted, companies are required by the BIR to provide in the notes to the separate financial statements, certain supplementary information for the taxable year. The amounts relating to such information may not necessarily be the same with those amounts disclosed in the separate financial statements which were prepared in accordance with PFRS. The following are the tax information/disclosures required for the taxable year ended December 31, 2023:

**A. VAT**

1. Output VAT	P5,040,000
<b>Account title used:</b>	
Basis of the Output VAT:	
Vatable sales	P42,000,000
Exempt sales	-
Zero rated sales	-
	P42,000,000
2. Input VAT	
Beginning of the year	P407,820
Goods other than for resale or manufacture	34,879
Capital goods not subject to amortization	2,398
Services lodged under other accounts	897,364
VAT payment for the year	(1,342,461)
Balances at the end of the year	P -

**B. Withholding Taxes**

Final withholding taxes	P188,726,485
Expanded withholding taxes	3,626,950
Fringe benefit taxes	1,258,062
Tax on compensation and benefits	8,885,662
	P202,497,159

**C. All Other Taxes (Local and National)**

<b>Other taxes paid during the year recognized under "Taxes and Licenses" account in Operating Expenses</b>	
Business tax	P388,536
Annual registration fee	500
Others	1,499
	P390,535

**D. Tax Cases**

As at December 31, 2023, the Company has no pending tax court cases nor has received tax assessment notices from the BIR.

Synergy Grid & Development  
Philippines, Inc.  
2023 Sustainability Report

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## I. About this Report

The 2023 Sustainability Report (Report) details the economic, environmental, and social (EES) impacts arising from the operations of Synergy Grid & Development Philippines, Inc. (SGP or the Company) for the year ending 31 December 2023. This report has been prepared according to the Sustainability Reporting Guidelines for Publicly-Listed Companies prescribed under Securities and Exchange Commission (SEC) Memorandum Circular No. 4 Series of 2019.

As a result of this Report, SGP has been able to assess, measure, monitor, and manage its non-financial performance across the EES aspects towards achieving sustainability.

## II. Company Background

Company Details	
<b>Name of Organization</b>	Synergy Grid & Development Philippines, Inc. (formerly UEM Development Philippines, Inc.)
<b>Location of Headquarters</b>	16th Floor, Tycoon Center Bldg., Condominium Pearl Drive, Pasig City
<b>Location of Operations</b>	16th Floor, Tycoon Center Bldg., Condominium Pearl Drive, Pasig City
<b>Report Boundary</b>	This report shall only cover SGP and does not include any of its subsidiaries.
<b>Business Model</b>	<p>The Company currently has limited business operations. Its income is derived from:</p> <ol style="list-style-type: none"><li>1. Interest income from cash deposits with the bank and short-term money placements;</li><li>2. Management consulting and financial advisory services provided to Monte Oro Grid Resources Corporation and Calaca High Power Corporation; and</li><li>3. Dividend income from the National Grid Corporation of the Philippines (NGCP), its sole operating asset.</li></ol> <p>It currently has ten (10) employees:</p> <ul style="list-style-type: none"><li>- President</li><li>- Chief Financial Officer</li><li>- Comptroller</li><li>- Audit and Risk Officer</li><li>- Accounting Manager</li><li>- Treasury Assistant</li><li>- 2 Finance Associates</li><li>- Administrative Assistant</li><li>- Messenger</li></ul>
<b>Reporting Period</b>	31 December 2023
<b>Highest Ranking Person Responsible for this Report</b>	Paul P. Sagayo <i>President</i>

### III. Materiality Process

For the purpose of SGP's Sustainability reporting, the concept of "Materiality" refers to the significant EES impacts of the Company that substantively influence the assessments and decisions of its stakeholders.

In 2020, SGP conducted a materiality assessment to determine the strategic sustainability priorities in line with its values and business goals. The results of the 2020 materiality assessment were adopted for 2021 and adjusted, when relevant, in consideration of the Follow-on Offering conducted on 10 November 2021.

In pursuit of the 2020 materiality assessment, the Company undertook to assess the opinions of a selection of internal and external stakeholders through questionnaires and interviews. The term stakeholders include investors, shareholders, directors, officers, regulators, employees, and legal consultants. The stakeholders who participated were given a brief explanation of the purpose of the Materiality process and were asked to choose from a list which EES topics they believe are significant for the Company to report on. To guide the stakeholders in identifying material topics, each were requested to take the following factors into account:

- Key corporate values, policies, strategies, operational management systems, goals, and targets;
- The core competencies of the Company and the manner in which they can contribute to sustainable development;
- The stakeholders' interest and expectations in the Company;
- Broader economic, social, and/or environmental interests and topics such as unemployment, vulnerable groups and civil society;
- Future challenges for the industries SGP has interest in; and
- Laws, regulations, international agreements, or voluntary agreements of strategic significance to the Company and the stakeholders.

In 2022, the resulting material topics and material disclosures were revisited in light of the changes in work situation, especially those brought about by the continuing restrictions related to the COVID-19 pandemic. For the reporting period of 2023, these were further revisited in view of the lifting of these restrictions.

With the addition of Occupational Health and Safety topic, SGP's consultation and evaluation process resulted in ten (10) material topics and thirteen (13) material disclosures. Figure A is a visual presentation of the material topics assessed against their (a) significance on EES impacts; and (b) influence on stakeholder assessments and decisions.

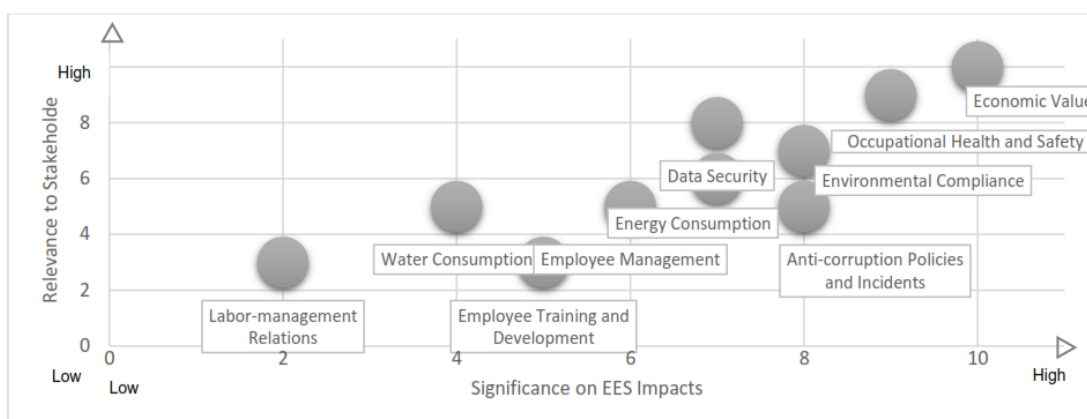


Figure A: Prioritization of topics

## IV. Economic Issues

### A. Direct Economic Value Generated and Distributed

Disclosure	Amount (in PhP)
Direct economic value generated (revenue)	1,896,536,682.00
Direct economic value distributed:	
a. Operating expenses	85,695,246.00
b. Employee wages and benefits	40,823,257.00
c. Payments to suppliers, other operating costs	44,481,454.00
d. Dividends given to stockholders and interest payments to loan providers	1,829,361,847.00 (dividends declared)
e. Taxes given to government	390,535.00
f. Investments to community (e.g. donations, CSR)	0.00SE

G

At the core of the Company's business operations is the aim to significantly contribute to the economic development of the Philippines, with a special view to supporting economic recovery with the establishment of key energy infrastructure projects. In shaping its business model and investment strategies, SGP continues its commitment in undertaking the economic well-being of the society, including, but not limited to, investors, shareholders, employees, local communities, and the government—not only at present but over the course of succeeding years.

As a holding company, the Company currently generates and distributes direct economic value through minimal operations. As early as 2010, SGP has been carefully planning and preparing to invest in corporations and entities engaged in power, energy, utilities, infrastructure, and other allied businesses. Its follow-on offering and its procurement of additional preferred shares in the NGCP is another step towards actualization of the company's business potential.

To reduce investment risks, existing investments are regularly monitored, and new investments are undertaken with due diligence considering SGP's economic position and long-term financial goals. Further, the Company has an existing investment criterion that it implements to ensure that risks are mitigated, and its investments are well-managed. The Company's Audit and Risk Committee (ARC) regularly evaluates and implements the enterprise risk management systems and protocols. This includes providing oversight over management's risk activities in managing credit, market, liquidity, operational, legal, and other risk exposures of the Company in relation to its assets. The ARC also continues to regularly review the Company's risk appetite levels and risk tolerance limits based on changes and developments in the business, applicable regulatory framework, and external economic and business environment, especially when major events occur that are considered to have major impacts on the Company such as the global pandemic.

SGP shall continue to add value by developing and improving its portfolio of well-run and sustainable assets that positively contribute to individual stakeholders, the community, and the country's economy. The Company acknowledges that there are still a lot of opportunities to improve its future profitability. In order to achieve its goals despite the risks and today's challenging environment, SGP's plans include investing in research and development to generate knowledge and innovations that will improve its financial position. Further, SGP shall further pursue its acquisition of subsidiaries and seek strategic partnerships that will create value for its stakeholders by improving infrastructure, and electricity production and distribution.

## B. Anti-Corruption

### i. Training on anti-corruption policies and procedures

Disclosure	Quantity
Percentage of employees to whom the organization's anti-corruption policies and procedures have been communicated to	100
Percentage of business partners to whom the organization's anti-corruption policies and procedures have been communicated to	100
<b>Percentage of directors and management that have received anti-corruption training</b>	0
<b>Percentage of employees that have received anti-corruption training</b>	0

As guided by the Company's Manual for Corporate Governance, the Company adopts an anti-corruption policy and program in its Code of Conduct. These procedures will likewise be embedded in trainings of its current and future employees. The Company has developed a framework for whistleblowing that would allow the employees to freely communicate their concerns about illegal or unethical practices without fear of retaliation, and to have direct access to an independent member of the Board or a unit created to handle whistleblowing concerns.

The Company continues to vigorously pursue the implementation of anti-corruption measures and intends to conduct a continuous risk assessment to identify significant risks related to corruption.



ii. Incidents of corruption

Disclosure	Quantity
Number of incidents in which directors were removed or disciplined for corruption	0
Number of incidents in which employees were dismissed or disciplined for corruption	0
Number of incidents when contracts with business partners were terminated due to incidents of corruption	0

The Company aims to protect the confidence and trust that stakeholders put in it which is why SGP has zero tolerance for corruption in the organization. Corruption negatively affects all its stakeholders. It can lead to loss of business resources, slowdown of business development, damage to the business's brand, negative effect on employee morale, and inhibit economic growth.

In its internal dealings and transactions with stakeholders, the Company continues to adhere to laws on anti-corruption, anti-bribery, and money laundering, among others. It expects and insists that its business partners, present and future, consistently observe applicable laws and regulations with integrity and honesty. The Company's contracts and transactions are thoroughly reviewed by its external legal team and higher management to ensure that standard provisions concerning compliance with applicable laws against corrupt practices are incorporated.

## V. Environmental Issues

The Company recognizes its indispensable role alongside the government and civil society in contributing solutions to global environmental challenges like air pollution, water shortage, and climate change.

With the reduced face to face interactions and hybrid work arrangement due to the community quarantine restrictions in the country, SGP is still able to reduce its energy and water consumption. Moving forward, SGP anticipates the necessity and benefit of developing and implementing environmental governance policies, as well as including environmental compliance in its compliance risk management structure. Further, considering that its environmental impact is highly dependent on the activities and businesses of companies where SGP will hold ownership stakes, it shall work with them to implement environmental policies to mitigate the impact created by their activities when possible.

### A. Resource Management

i. Energy consumption within the organization

Disclosure	Quantity	Unit
Energy consumption (renewable sources)	0.00	GJ
Energy consumption (gasoline)	0.00	GJ
Energy consumption (LPG)	0.00	GJ
Energy consumption (diesel)	0.00	GJ
Energy consumption (electricity)	19,739.00	kWh

ii. Reduction of energy consumption

Disclosure	Quantity	Unit
Energy consumption (renewable sources)	0.00	GJ
Energy consumption (gasoline)	0.00	GJ
Energy consumption (LPG)	0.00	GJ
Energy consumption (diesel)	0.00	GJ
Energy consumption (electricity)	0.00	kWh

Conserving energy reduces emissions which result in cleaner air quality and create a healthier planet. Energy conservation also positively contributes to decreasing an entity's operating expenses, leading to sustainable business operations. On the other hand, overusing energy can lead to increased expenses for an organization, air pollution and climate change, all of which negatively affect the business's operations and investments.

Prior to the onset of the pandemic and the imposition of community quarantine rules in the Philippines, the Company's total energy consumption was derived mainly from the activities in its office occupied by its single employee in 2020 and the years prior. Further, the office of the Company was shared with other holding companies with likewise minimal operations. Thus, energy consumption and the Company's overall impact to the environment was very minimal and distributed among the organizations. This was further reduced when a work-from-home scheme was implemented by the Company for the majority of the year 2020, and continuing into the following years. Nonetheless, SGP recognizes that it has indirect energy consumption through its dealings with third parties.

To reduce the risk posed by the negative effects of excessive energy use, the Company has undertaken several steps to reduce its energy consumption, both in the office and at the home setting where work was partially done by the Company's employees. Its energy-saving efforts include advising employee to reduce and replace inefficient and excessive lighting in the work area, taking advantage of natural daylight, establishing preventive maintenance program for its air conditioning, turning off electrical equipment in the office during non-business hours, and choosing energy efficient equipment. Further, the Company is also implementing paperless transactions, when possible. Its workforce is also able to lessen travel emissions by conducting virtual calls and meetings and opting to work from home when it is not necessary to be physically present at the office.

Since the Company expanded its operations, it is in the process of drafting and developing an environmental policy, which shall include the following approaches to reduce its energy consumption: tracking energy consumptions at all levels (direct and indirect use), utilizing resource conservation technologies, and investing in clean energy. The Company plans to integrate its environmental policy into the Company's vision and operations, making energy consciousness part of its corporate culture.

iii. Water consumption within the organization

Disclosure	Quantity (in cubic meters)
Water withdrawal	0.00
Water consumption	38.0
Water recycled and reused	0.00

Despite its low water consumption, SGP aims to help in alleviating the water scarcity in the Philippines aggravated by climate change. Its water-saving measures currently include installing water-efficient taps with flow restrictor to use less water, fixing leaking faucets, use of fans and natural ventilation when possible, and regularly checking toilets and faucets for leaks.

Despite its efforts, the Company understands that a lot of factors affecting its water supply is beyond its control.

Reports and experience have shown that businesses and investors in the electric power or energy sector are exposed to water-related physical, regulatory, and reputational risks. Climate change will further reduce the availability of reliable and high-quality water, impacting productivity, costs, revenues, public goodwill, and reputation for companies in this sector. Because of the Company's exposure to water-related risk, it considers this a material issue that merits management attention and action.

In light with the risks posed to SGP's business and stakeholders by water shortage and interruption, it plans to implement key actions below as its operations expand:

- a. Continuous measurement of its water footprint;
- b. Regular assessment of business risks associated with its water footprint;
- c. Engagement with stakeholders (local communities, non-government organizations, government bodies, contractors, shareholders, and employees) as part of its water risk assessment, management and long-term planning;
- d. Integration of water risk into its overall business planning and governance structure; and
- e. Disclosure to stakeholders of its water performance and associated risks.

By pursuing its strategic water management plan above, SGP hopes to build resiliency for water and climate change risks and turn these risks into financial and competitive advantage. Water efficiency measures can demonstrate the Company's commitment to water management, boost public image, and help build positive relations with the communities where the Company may operate.

## B. Environmental Compliance

Disclosure	Quantity (in PhP)
Total amount of monetary fines for non-compliance with environmental laws and/or regulations	0.00
No. of non-monetary sanctions for non-compliance with environmental laws and/or regulations	0.00
No. of cases resolved through dispute resolution mechanism	0.00

SGP remains committed to conducting its business in accordance with the highest ethical standards and regard to environmental aspect of its activities. In 2023, SGP recorded no fines or non-monetary sanctions for non-compliance with environmental laws and regulations. It will continue striving to go beyond compliance by actively minimizing the impact of its business activities on the environment and implementing environmental protection programs. It shall also continue ensuring that the Company will be consistent in its positive environmental compliance record through integrating environmental compliance risk in its risk management function.

## VI. Social Issues

### A. Employee Management

#### i. Employee data

Disclosure	Quantity
Total number of employees	10
a. <b>Number of female employees</b>	8
b. <b>Number of male employees</b>	2
<b>Attrition rate</b>	0
<b>Ratio of lowest paid employee against minimum wage</b>	0

#### ii. Employee benefits

List of Benefits	Availability	% employees availed
SSS	✓	100%
PhilHealth	✓	100%
Pag-ibig	✓	100%
<b>Parental leaves</b>	N/A	
Vacation leaves	✓	100%
Medical benefits (aside from Philhealth)	✓	100%
<b>Housing assistance (aside from Pag-ibig)</b>	N/A	
<b>Retirement fund (aside from SSS)</b>	N/A	
<b>Further education support</b>	N/A	
<b>Company stock options</b>	N/A	
<b>Telecommuting</b>	✓	100%
<b>Flexible-working hours</b>	✓	100%
(Others)		

### B. Employee training and development

Disclosure	Quantity
<b>Total training hours provided to employees</b>	0
<b>Average training hours provided to employees</b>	0

### C. Promotion of worker health

Disclosure	Description
<b>Employee access to non-occupational and healthcare services</b>	Medical benefits in addition to Philhealth is available
<b>Voluntary health promotion services and programs</b>	Regular monitoring of health risk and access to health information is available

#### D. Labor-management relations

Disclosure	Quantity
<b>Percentage of employees covered with Collective Bargaining Agreements</b>	0
<b>Number of consultations conducted with employees concerning employee-related policies</b>	0

In addition to the minimum benefits required by law, SGP provided all its full-time employees with leave benefits and company-funded medical benefits, to name a few. Work from home arrangements have also been made available to employees.

Aside from providing access to non-occupational and healthcare services to the Company's employees, in addition to Philhealth, the Company also regularly assesses the health status of its employee and provides access to programs and materials on health management and improvement. This includes access to online seminars and articles on stress management, COVID-19 precautions, and maintaining a healthy lifestyle.

The Company recognizes the risks posed by a small staff. Employee turnover could result in disruption of business and expense in finding and training new employees. There is also a risk of fraud or collusion when employees are largely autonomous. As part of its risk mitigation strategies, the Company continues to implement a selection procedure that increases the probability of finding the right staff for the business. It also implements a performance development system for communication of performance expectations and monitoring performance.

The value that the Company places on employee participation is reflected in the Company's Manual of Corporate Governance. It plans to implement the action points therein as the Company further expands its operations. It also intends to provide proper training for its employees and to improve labor relations.

#### E. Data security

Disclosure	Quantity
<b>Number of data breaches, including leaks, thefts and losses of data</b>	0

Information technology (IT) enables the Company to maintain its operations with convenience and speed. It, however, also presents potentially high-impact risk to both the Company and its stakeholders. While there were no data breaches recorded in 2023, cyber security remains on the top of the Company's agenda. Significant risks in technology identified by the Company includes data management risk, cyber security risk, and third-party risk.

Ineffective data management can result from poor data management capabilities, retention of unnecessary data, and unmanaged creation, processing, and disposal of data. This can lead to financial fraud, accounting, and compliance issues. IT-related processes within the Company are also vulnerable to cyber-attacks and data privacy breaches. The Company is also exposed to third-party risk as it does business with other companies, financial institutions, government offices, and other stakeholders.

To mitigate these risks, the Company continues its implementation of the following action steps to better enable SGP to oversee and manage IT risks:

- a. Integrate IT risks into its risk management structure;
- b. Conduct trainings on technology management skills;
- c. Conduct regular and independent internal audit;
- d. Assess IT capabilities of third parties; and
- e. Develop cyber incident response plan.

A secured IT environment will increase stakeholder confidence and will allow the Company to maximize existing and emerging IT available to it. SGP aims to keep up with the new technology and capabilities as it continues to strengthen its technological governance through the action steps mentioned above.

## VII. United Nations Sustainable Development Goals

In September 2015, the United Nations General Assembly adopted the 2030 Agenda for Sustainable Development that includes 17 Sustainable Development Goals (SDGs). The SDGs aim to achieve a better and more sustainable future for all. In a highly interconnected world, the Company is fully aware that it cannot thrive without operating within a sustainability framework.



The Company has analyzed the risks and opportunities to our business that may arise from the 17 UN SDGs, as follows:

Business Contributions	Societal Value/Contribution to UN SDGs	Potential Negative Impact or Contribution	Management Approach to Negative Impact
Stimulating the economy	1 8 9 11 17	As operations expands, so will resources consumption	Investment in clean energy and partnering with stakeholders for sustainable business models
Implementing energy and water saving measures	6 7 11 12 13 17	Expenses will be incurred in upgrading fixtures and equipment, and in transitioning to use of alternative energy sources or efficient use of energy and water	Integrating energy and water conservation into business planning, considering profits in efficiency and innovation
Promoting employee health and welfare	3 8 16	With the COVID-19 pandemic, turnover caused by medical emergencies within small staff can cause disruption of business. There is also a risk of fraud if low on accountability.	Provide access to non-occupational and healthcare services, prioritize health programs and implementation of sanitation measures; Improve selection procedures, implement performance

			development system for communication of performance expectations and monitoring employee performance; to improve labor relations with employees
Promoting data privacy and security	9 16	Increase in vigilance in cybersecurity can hinder ease of doing business	Set notification and approval threshold for IT risk situations

In 2023, through the Company's sole operating asset NGCP and its corporate social responsibility initiatives, it was also able to indirectly comply with the SDGs in its engagements to its stakeholders.

Stakeholder Contributions	Societal Value/Contribution to UN SDGs	Strengths	Management Approach
Provision of Two-Classroom Building to host school beneficiaries	4	This project supports the government's initiative in providing basic infrastructure facilities conducive to learning. The project also aims to improve the learning environment of the students that can impact their well-being and performance to achieve success in the future.	NGCP provided eight (8) 2-Classroom buildings in partnership with the Department of Education (DepEd).
Medical assistance to host communities through Mobile MD project	3	NGCP provides health care to host communities.	For 2023, NGCP implemented face-to-face Medical and Dental Missions in eight (8) indigenous people (IP) Communities in Mindanao, five (5) IP Communities in North Luzon, and four (4) surgical outreach with one (1) beneficiary LGU from each region (North Luzon, South Luzon, Visayas and Mindanao), benefitting 2,139 individuals.
Educational Assistance through Tertiary Edification (EDUCATE)	4	The program provides opportunity to underprivileged but deserving students from NGCP host communities focusing on engineering	In partnership with 26 partner state universities and colleges, NGCP provided scholarship to 400 college students. Benefits per



		courses	semester include tuition and miscellaneous fees, monthly stipend of P5000 for five months and P5000 book and clothing allowance.
Gamit ni Bulilit	4	The program distributes school supplies to DepEd Regional Offices and pupils from select public schools nationwide	For 2023, in partnership with the DepEd, NGCP provided school supplies consisting of bags, 10 notebooks, 3 pencils, reusable facemasks and a bottle of alcohol, benefitting 100,000 learners from 400 public elementary schools including those under Bangsamoro Autonomous Region Muslim Mindanao (BARMM).
Response to calamity-stricken communities through Calamity Affected Relief Efforts (CARE)	13	Prepositioned items provided the opportunity for NGCP to efficiently deliver relief items to affected communities.	In 2023, CARE project provided immediate relief response to 21 provinces affected by natural hazards such as the Mayon Volcano Eruption, Typhoons Falcon and Egay, floodings brought about by Southwest Monsoon rains and Shearline weather systems, and damaging earthquakes in Mindanao. Relief packs which include rice packs, bottled water, and canned goods were distributed to 28,760 households. By procuring the items prior to any incident and prepositioning these in hazard prone areas, it avoided the effect of being inflationary during a calamity and improved efficiency in disaster response.
Community Water System Project	6, 7	NGCP provides potable water supply access to the local community for domestic use	NGCP supported the construction of a Community Water System Project (CWSP) for residents

			in Brgy. Maria Cristina, Balo-I Lanao Del Sur. With the completion of the CWSP, NGCP helped ensure the community's health and well-being through a more secure potable water supply.
Disaster Risk Reduction (DRR) Project	13	The project strengthens the capacity of high-risk NGCP partner provinces in disaster preparedness and mitigation to contribute to the Sendai Framework for Disaster Risk Reduction expected outcome: "substantial reduction of disaster risk and losses in lives, livelihoods and health and in the economic, physical, social, cultural, and environmental assets of persons, businesses, communities and countries".	NGCP provided support in the updating of provincial risk assessment; strengthening and institutionalization of early warning system (EWS), establishing/updating of localized flood and landslide EWS and communication equipment, and developing a dashboard for information management for provincial LGUs chosen through hazard prone categorization, vulnerability, and exposure based on available NDRRMC data and information.
Wildlife and Nature Guardians (WINGS)	13, 15	The project increase the understanding of the biology and ecology of threatened species, as well as restore, conserve, and protect their habitat and maintain the integrity of ecosystems to support and sustain human well-being.	NGCP invested in biodiversity conservation with the main goal of increasing the population of the Rufous-headed Hornbill ( <i>locally known as Dulungan</i> ), a critically endangered species found in the Northwest Panay Peninsula and the Northern Negros Natural Park Key Biodiversity Areas. This has been done through capacity building initiatives targeting local governments, the DENR, and other key stakeholders, as well as efforts to enhance ecological knowledge with the aim of raising

			awareness among local communities on the importance of creating a conducive environment for the conservation and protection of the Dulungan.
Forest Restoration Project	13, 15	The project establishes ecological stability and empower key stakeholders through forest restoration, capacity building, and sustainable livelihood opportunities. The initiative likewise helps secure present and future generations' need for forest services such as sustainable water supply, clean air, reliable energy source, and protection from impacts of weather disturbances such as landslides and floodings.	<p>NGCP supports the implementation of capacity-building activities of local communities, increasing forest cover thru native forest tree planting, and establishment of Community Ecological Sanctuaries thru active collaboration with key stakeholders such as community-based organizations, local government units and the Department of Environment and Natural Resources.</p> <p>In 2023, the project contributed to increasing forest cover using Rainforest Technology in Aurora Memorial National Park, Bicol National Park, and Pantabangan-Carranglan Watershed Forest Reserve.</p>
Provision of Livelihood Kits through Community Upskilling and Enterprise Development (CUPED)	1, 8, 9	The project alleviates the negative impact of the COVID-19 pandemic by providing needed capital in the form of livelihood kits to various micro-enterprises comprising of 15 convenience stores, 15 rice retailing stores, and 10 eateries in 12 municipalities/cities.	<p>In partnership with the Department of Trade and Industry (DTI) and the respective local government units (LGUs), NGCP turned over livelihood kits to 480 micro-enterprises from 12 host municipalities/cities comprising of convenience stores (sari-sari), rice retailing stores (bigasan), and eateries (carinderia).</p> <p>Training related to enterprise development was also provided to the beneficiaries through</p>

			the project partner, DTI. The identification of individual beneficiaries was conducted by the concerned LGUs, and profiling/verification was done by DTI.
Grassroots Rice-based Agroenterprises Integrated Sustainability (GRAINS) Project	2, 12, 15	<p>The GRAINS project successfully established replicable prototypes for profitable small-scale rice-based farming systems, integrating sustainable methods like integrated nutrient cycling to lower production costs and reduce dependency on costly external inputs.</p> <p>Accomplishments include the establishment of technology demonstration farms integrating vegetable and poultry production, creation of community-managed savings groups to promote financial literacy and local access to finance, and formation of agroenterprise associations trained in organizational and enterprise development.</p>	<p>NGCP partnered with World Wide Fund for Nature Philippines to provide the needed resources and capacity development trainings to farmers on rice-based farming systems technology demo farm, financial literacy and savings mobilization, and organizational and enterprise development.</p> <p>NGCP trained over 300 farmers in 8 farming communities, investing significant time in knowledge transfer through training and mentoring, and established 8 demo farms with a total of 4 hectares, yielding rice and other crops, and facilitated community-managed savings groups to improve financial access for members.</p>

Provision of skills training course through Skills Camp project	1, 8, 9	<p>The Skills Camp Project offers training courses leading to National Certification II competency in Tile Setting, Masonry, Electrical Installation and Maintenance, Heavy Equipment Operation (Backhoe Loader and Wheel Loader), and Carpentry, focusing on skills relevant to substation and transmission projects. It is expected to generate employable skilled workers and enhance livelihood opportunities, particularly targeting out-of-school and unemployed individuals.</p> <p>The NC II qualification helps the beneficiaries become competitive and qualified for available job opportunities in the related industry. The NC II passers are endorsed to the LGU's Public Employment Service Office (PESO) for manpower pooling.</p>	NGCP, in partnership with the Technical Education and Skills Development (TESDA), a national agency mandated to provide relevant, accessible, high quality and efficient technical education and skills development, seeks to implement the various construction-related training course in 8 communities and subsequently, conduct an NC II assessment of the trainees to certify them as qualified and competent skilled workers.
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The Company's evaluation reveals that its EES business impacts are aligned with twelve (12) out of seventeen (17) UN SGDs. Of these business impacts, our most significant contribution is its investment in banks and, indirectly, in various industries that increase economic productivity of our country.

## Disclosure Index

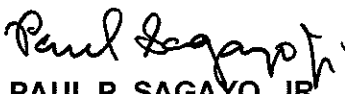
Disclosure	Reference and Omission
Contextual information	Pg. 2
Materiality process	Pg. 3
<b>ECONOMIC</b>	
Direct economic value generated and Distributed	Pg. 5
Climate-related risks and opportunities	As a holding corporation with limited business operation, the Company has no climate-related risks and opportunities.
Portion of spending on local suppliers	As a holding corporation with limited business operation, the Company has no significant procurement budget on local suppliers.
Training on anti-corruption policies and procedures	Pg. 6
Incidents of corruption	Pg. 7
<b>ENVIRONMENTAL</b>	
Energy consumption within the organization	Pg. 7
Reduction of energy consumption	Pg. 8
Water consumption within the organization	Pg. 8
Materials used by the organization	As a holding corporation with limited business operation, the Company did not use or produce any materials to manufacture products or services.
Ecosystems and biodiversity	The Company does not own, lease, manage or operate in protected areas or areas of high biodiversity value. There are no species or habitats affected by the Company's limited business operation.
GHG	As a holding corporation with limited business operation, the Company does not directly or indirectly produce (GHG) emissions or emissions of ozone-depleting substances (ODS).
Air pollutants	As a holding corporation with limited business operation, the Company does not directly or indirectly produce significant air pollutants.
Solid Waste	As a holding corporation with limited business operation and number of employees, the Company does not produce significant solid waste.
Hazardous Waste	As a holding corporation, the Company does not produce or generate hazardous waste.
Effluents	As a holding corporation with limited business operation and number of employees, the Company does not produce significant effluents.
Non-compliance with environmental regulations	Pg. 9
<b>SOCIAL</b>	
Employee data	Pg. 10
Employee benefits	Pg. 10
Employee training and development	Pg. 10
Labor management relations	Pg. 11

Diversity and equal opportunity	Company has eight (8) female employees and two (2) male employees. Women are given the opportunity to participate in the workforce.
Occupational health and safety	Pg. 10
Labor laws and human rights	Topic is not material as Company's has not commenced any legal action involving forced or child labor or violation of human or labor rights.
Supply chain management	Topic is not material as Company does not have any supplier due to the nature of its business and its limited business operation.
Significant impacts on local communities	Topic is not material as Company does not have business operations involving local communities.
Customer satisfaction	Topic is not material due to the nature of Company's business and limited business operations.
Health and safety	Topic is not material as Company does not have products or render services that affect the health and safety of the customers or the public in general.
Marketing and labelling	Topic is not material as Company's operations do not involve marketing and labelling
Customer privacy	Topic is not material as Company has no significant customers whose data is processed by the Company.
Data security	Pg. 11
<b>UN SUSTAINABLE DEVELOPMENT GOALS</b>	
Product or service contribution to UN SDGs	Pg. 13

## **SIGNATURES**

Pursuant to the requirements of the Securities and Exchange Commission, the issuer has duly caused the report to be signed on its behalf by the undersigned thereunto duly authorized.

**SYNERGY GRID & DEVELOPMENT PHILS., INC.**

By:   
**ATTY. PAUL P. SAGAYO, JR.**  
*President*