COVER SHEET

4	1	3	7	6

S.E.C. Registration Number

SYNERGY GRID & DEVELOPMENT PHILS., INC. (formerly: UEM DEVELOPMENT PHILS., INC.)

(Company's Full Name)

16TH FLOOR TYCOON CENTER BLDG. CONDOMINIUM PEARL DRIVE, PASIG CITY, METRO MANILA

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

Pia Isabel O. Co
Contact Person

8633-9757/8584-3930
Company Telephone Number

1	2		3	1

Month *Day*

Fiscal Year

SEC FORM 17-Q
FORM TYPE

1	0		2	0

Month *Day*

Annual Meeting

N/A

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

S T A M P S

Remarks = pls. use black ink for scanning purposes

SECURITIES AND EXCHANGE COMMISSION

SEC FORM 17-Q

**QUARTERLY REPORT PURSUANT TO SECTION 17
OF THE SECURITIES REGULATION CODE AND SRC RULE 17 (2)(b) THEREUNDER**

1. For the quarterly period ended: **30 JUNE 2022**

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.**

5. Province, country or other jurisdiction of incorporation or organization
Pasig City, Republic of the Philippines

6. Industry Classification Code. [ ] (SEC Use Only)

7. Address of issuer's principal office — Postal Code
16th Floor, Tycoon Center Bldg. — **1605**
Condominium Pearl Drive, Pasig City, Metro Manila

8. Issuer's telephone number, including area code
(**632) 8584-3930**

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
Common	**5,265,866,000**

11. Are any or all of these securities listed on a Stock Exchange.

Yes [**X**] 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 [**X**] No [ ]

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

Yes [**X**] No [ ]

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 [**X**] This item is not applicable to the Company.

DOCUMENTS INCORPORATED BY REFERENCE:

The Company attaches to this form and incorporates by reference as a component of Part I hereof its Financial Statements for the second quarter of 2022, period ending June 30, 2022.

PART I – FINANCIAL INFORMATION

Item 1. Financial Statements

Financial Statements and, if applicable, Pro Forma Financial Statements meeting the requirements of SRC Rule 68, Form and Content of Financial Statements, shall be furnished as specified therein.

Synergy Grid & Development Phils., Inc. ("Company") also attaches to this form and incorporates by reference as a component of Part I, its Financial Statements for the second quarter of 2022, period ending June 30, 2022.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

Synergy Grid & Development Phils., Inc. (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, 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 500,000,000 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 Parent 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 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 Deed of Exchange of Shares and Subscription 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 shareholder's 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 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 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 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 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 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.

The 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 12, 2022, 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 07 June 2022, the SEC approved NGCP's application for increase in authorized capital stock and creation of non-voting preferred shares. On 09 June 2022, the Company fully paid the remaining 75% balance of the total subscription amounting to 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 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 25th anniversary of the commencement date. The Concession can be extended but not to exceed beyond the 50th anniversary of the commencement date or for longer than the remaining term of the Group's franchise.

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 2021 and 2020, the Group 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:

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

Expenses incurred pertaining to these agreements are included in “Outside services” and “Professional fees” accounts in the consolidated interim statements of comprehensive 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 at June 30, 2022, the Company entered into new construction contracts amounting to P20.02 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 - (Currimao 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)
- Laguindingan230kV bus-in to Balo-I - Villanueva and Nasipit138kV 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)

For 2022, the Capital Expenditures approved by NGCP’s Board on March 25, 2021 amounted to P37.6 billion.

As of December 31, 2021, the Company entered into new significant construction contracts amounting to P47.72 billion, among the major contracts are as follows:

- Erection and Construction for CNP 230kv Backbone Project - Stage 3, Negros Side Transmission Line (Calatrava - Cadiz - E.B. Magalona Substations)
- Luzon Voltage Improvement Project 3, Stage 2 - Schedule V (Botolan S/S and Itogon S/S) and North Luzon Substation Upgrading Project, Stage 1 - Schedule VIII (Quezon S/S)
- Mindanao Substation Expansion 4 Project Schedule I - Design, Supply, Installation, Testing and Commissioning of Power Transformers (Naga-Min, Polanco, Agus 6 and Maramag SS) - Offshore Portion
- Mindanao Substation Upgrading 2 Project Schedule I - Design, Supply, Installation and Commissioning of Power Transformers (Balo-I, Jasaan, Kibawe and Butuan SS) - Offshore Portion
- Package C: Mindanao - Visayas Interconnection Project (Dapitan - Lala and Dumanjug - Santander 350kV HVDC Transmission Lines)
- Service Agreement for Engineering Geological and Geotechnical Investigation Services of Transmission Line and Substation Projects
- Design, Manufacture, Delivery, Installation, Assembly, Testing and Commissioning of Spare Power Transformer Schedule III - 2x100mva, 230/69/13.8KV; 1x100MVA, 138/69/13.8KV; 1x100MVA, 115/34.5KV Power Transformers
- Mindanao Substation Upgrading 2 Project Schedule III - Design, Supply, Installation and Commissioning of Power Transformers (Kidapawan and General Santos SS) - Offshore Portion
- Design, Manufacture, Delivery, Installation, Assembly, Testing and Commissioning of Spare Power Transformers, Schedule II - 2x150MVA, 230/138/13.8kV Power Transformer
- Supply and Delivery of Thirty-Five (35) Units Line Trucks
- Supply and Delivery of IED Meters
- Supply and Delivery of Current Transformer, Combined Instrument Transformer and Voltage Transformer (Batch 2)
- Supply of Labor, Tools, Materials, Supplies and Equipment for the Installation of Deluge Water Spray System for the Power Transformer at Various Substation of O and M
- Replacement of Surge Arrester at Cabacungan Cts (Cabacungan Cable Terminal Station, Brgy Cabacungan Allen Northern Samar) To Facilitate the Local Delivery of Foreign Supplied Materials, Installation, Assembly, Testing and Commissioning and Training
- Cebu-Lapulapu Transmission Project (Submarine Cable Portion) Re-Bidding
- North Luzon Substation Upgrading Project 2, Schedule III - Design, Supply, Installation, Testing and Commissioning at San Manuel and Nagsaag Substations
- North Luzon Substation Upgrading Project 2, Schedule IV - Design, Supply, Installation, Testing, and Commissioning of HV Equipment at San Jose Substation
- Remaining Works for Hermosasan Jose 500KV Transmission Line Project
- Visayas Substation Upgrading Project 2, Schedule IV - Design, Supply, Installation, Testing and Commissioning of High Voltage Equipment Including Secondary Devices at Dingle Substation
- Visayas Substation Upgrading Project 2, Schedule VIII at Corella and Ubay Substation
- Visayas Substation Upgrading Project 2, Schedule VII - at Daanbantayan, Compostela, Calong-Calong, Toledo and Samboan Substations
- Mindanao Substation Upgrading 2 Project, Schedule IV - Design, Supply, Installation, Testing & Commissioning of High Voltage Equipment Including Secondary Devices at Balo-I, Jasaan, Kibawe & Butuan S/S
- South Luzon Substation Upgrading Project 2, Schedule IV - Design, Supply, Installation, Testing and Commissioning of High Voltage Equipment Including Secondary Devices at Calaca and Tuy Substations
- Supply and Delivery of Steel Towers for the Hermosa - San Jose 500kv TL Project (Remaining Works)
- Visayas Substation Upgrading Project 2, Schedule IX at Kabankalan and Mabinay Substations
- Visayas Substation Upgrading Project 2, Schedule V - Design, Supply, Installation, Testing and Commissioning of High Voltage Equipment Including Secondary Devices at Calbayog and Paranas Substations
- Visayas Substation Upgrading Project 2, Schedule Vi - Design, Supply, Installation, Testing and Commissioning of High Voltage Equipment Including Secondary Devices at Tabango, Isabel and Maasin Ss

- Bataan Grid 230kv Reinforcement Project (Erection/Construction of Intermediate Steel Poles for The Raising of Conductor Sags of Mexico - Hermosa 230kv Transmission Line Project
- San Francisco - Tago 138kv Transmission Line Project (Substation Portion)
- South Luzon Substation Upgrading Project 2, Schdule III at Lumban, Gumaca, Labo, Naga and Daraga Substations.
- Abuyog 230kv Substation Project (Transmission Line Portion)
- Erection and Construction of Tuy (Calaca) Dasmarinas 500 KV Transmission Line Project (TL Portion)
- Mindanao Substation Expansion 4 Project, Schedule Iii; Zamboanga Peninsula Voltage Improvement Project, Schedule Ii; and Mindanao Substation Expansion 3 Project
- Mindanao Substation Upgrading 2 Project, Schedule V - Design, Supply, Installation, Testing and Commissioning of High Voltage Equipment Including Secondary Devices at Davao, Toril & Bunawan SS
- Negros - Panay 230kv Interconnection Line 2 Project (Substation Portion) - Barotac Viejo and E.B Magalona Substations Expansion Project
- North Luzon Substation Upgrading Project 2, Schedule V, Concepcion Substation - Design, Supply, Installation, Testing and Commissioning of High Voltage Equipment Including Secondary Devices
- Pinamucan 500kv Substation Projects
- Porac 230kv Substation Project
- South Luzon Substation Upgrading Project 2, Schedule V - Design, Supply, Installation, Testing & Commissioning of Hv Equipment Including Secondary Devices at Biñan, Dasmariñas & Muntinlupa S/S
- Western Luzon 500kv Backbone Project (Stage 2) Schedule I - Castillejos 500kv and Balsik 500kv Substation Portion and Castillejos 230kv Substation Portion

For 2021, the Capital Expenditures approved by NGCP's Board on March 19, 2020 amounted to P50.51 billion, which was recalibrated down to around P38.96 billion considering the impact of COVID-19.

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 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.

The remaining project, San Jose S/S under Luzon PCB Replacement Project, was completed on January 31, 2021.

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 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, NGCP 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.

The following is an explanation of material changes in certain items of the Group’s financial statements:

Six months ended June 30, 2022 with six months ended June 30, 2021

Intangible Assets- net

Intangible assets as of June 30, 2022 amounted to P 312.28 billion, 10.80% higher than P281.84 billion as of June 30, 2021. The increase is primarily due to the additional expenditures incurred on NGCP priority and other major projects, such as Mindanao Visayas Interconnection Project (MVIP), Hermosa – San Jose 500 KV T/L Project, Mariveles – Hermosa 500 KV T/L Project, Cebu – Bohol Interconnection Project (CBIP), Cebu-Negros-Panay (CNP) Backbone Project Stage 3, Pagbilao EHV Substation & Associated T/L Project, Cebu – Bohol Interconnection Project (CBIP), Baloi - Kauswagan - Lala (Aurora) 230kV TLP, CNP230KV BB Proj-Stage 3(Negros-Cebu), CNP 230 KV Backbone Project-Stage 2, Hermosa - San Jose 500KV TLP, South Luzon Substation Upgrading Project and Taguig EHV SS Project.

Receivables

Receivables as of June 30, 2022 consist of:

Receivables – net of current portion	P 15.98 billion
Receivables – current portion	14.40 billion
Total	**P 30.38 billion**

Receivables as of June 30, 2022 amounted to P 30.38 billion, 105.41% higher than P 14.79 billion as of June 30, 2021. This is primarily due to to recording/recognition of Accrued Power Receivable – Non-Current for incremental iMAR 2020 for CY 2020 and 2021.

Other noncurrent assets

Other non-current assets as of June 30, 2022 amounted to P4.40 billion, 3043% higher than P0.14 billion as of June 30, 2021. This is primarily due to the reclassification of non-current portion of the Project Prepayment-Current account to Project Prepayment - Noncurrent account.

Cash and cash equivalents

Cash and cash equivalents as of June 30, 2022 amounted to P12.33 billion, 25.56% higher than P9.82 billion as of June 30, 2021. This is mainly due to the proceeds from issuance of Preferred Shares of NGCP.

Other current assets

Prepaid expenses and other current assets as of June 30, 2022 amounted to P27.23 billion, 1.76% higher than P26.76 billion as of June 30, 2021. This is primarily due to the higher balance of Other Deposit-Court account, Input VAT and Project Prepayment offset lower balance of Materials, Supplies and Equipment Inventory.

Loans Payable
Loans Payable as of June 30, 2022 consist of:

Loans Payable – net of current portion	P 144.76 billion
Current portion of loans payable	14.84 billion
Total	**P159.60 billion**

Loans Payable as of June 30, 2022 amounted to P159.60 billion, 13.02% higher than P141.21 billion as of June 30, 2021. This is mainly due to new loan drawn downs offset by payments made.

Retirement benefits liability
Retirement benefits liability as of June 30, 2022 amounted to P1.97 billion, 4.23% higher than P1.89 billion as of June 30, 2021. This is due to additional service cost for the period based on Actuarial Valuation.

Other current and other non-current liabilities
Other Current and noncurrent liabilities as of June 30, 2022 consist of:

Other noncurrent liabilities	P 2.50 billion
Other current liabilities	13.35 billion
Total	**P 15.85 billion**

Other current and other noncurrent liabilities as of June 30, 2022 amounted to P 15.85 billion, 29.39% higher than P12.25 billion as of June 30, 2021. This is mainly due to additional retention payable on on-going projects and Advances from Construction for Magdugo Substation.

Trade and other current payables
Trade and other current payables as of June 30, 2022 amounted to P38.33 billion, 3.60% lower than P39.76 billion as of June 30, 2021. This is due to settlement of payables.

Income
Operation services revenues as of June 30, 2022 totaled to P35.51 billion, 46.80% higher than P24.19 billion as of June 30, 2021. This is due to higher iMAR as approved by ERC effective January 1, 2020 and the recording of Accrued revenue for incremental iMAR 2020 for CY 2020 and 2021.

Interest income as of June 30, 2022 totaled to P97.09 million, 205.22% higher than P31.81 million as of June 30, 2021. This is due to interest earned on placements of FOO proceeds prior to investment on Preferred Shares of NGCP.

Operating expenses
For the six months ended June 30, 2022, the Operating Expenses totaled to P10.02 billion, 12.33% higher than P8.92 billion as of June 30, 2021 primarily because of the higher Salaries, wages, and employees' benefits, Outside Services, Public Relation & Corporate Social Responsibility as well as Repairs & Maintenance.

Repairs and maintenance for the six months ended June 30, 2022 totaled to P714.89 million, 57.00% higher than P455.33 million as of June 30, 2021 mainly due to higher Maintenance of Underground/Submarine Lines, Transmission Lines and Substation Equipment.

Communication, light and water for the six months ended June 30, 2022 totaled to P247.94, million 19.16% higher than P208.08 million as of June 30, 2021 due to higher Station Use offset by lower Telephone and Internet Subscription.

Supplies and tools for the six months ended June 30, 2022 totaled to P112.94 million, 19.24% lower than P139.84 million as of June 30, 2021 mainly due to lower Laboratory Supplies Expense and Office Supplies Expense in 2022.

Public relation and corporate social responsibility for the six months ended June 30, 2022 totaled to P353.97 million, 268.26% higher than P96.12 million as of June 30, 2021 due to higher expenses and more programs relating to Public Relation in 2022.

Six months ended June 30, 2022 compared to year ended December 31, 2021

As of six months ended June 30, 2022, the Company already reached P35.5 billion or 73% of its Operating Revenues of P48.6 billion for the year ended December 31, 2021. This is due to higher iMAR approved by ERC, effective January 1, 2020, resulting to the recognition of incremental iMAR 2020 for 2020 up to April 2022.

There was a slight increase in Operating Expenses as it reached P10 billion as of June 30, 2022 or 51% of P19.52 billion for the year ended December 31, 2021 due to higher expenses and more programs relating to Public Relations in 2022.

Key Performance Indicators

Performance Indicators	Formula	June 30, 2022	June 30, 2021
Current Ratio	Current Assets/ Current Liabilities	**0.81 : 1.00** 53,961,097,499 / 66,529,537,297	**0.79 : 1.00** 51,298,215,097 / 65,139,802,688
Debt to Equity Ratio	Total Liabilities / Stockholder's Equity	**2.06 : 1.00** 270,524,146,736 / 131,406,500,770	**2.55 : 1.00** 249,815,642,529 / 97,969,922,833
Asset to Equity Ratio	Total Assets / Stockholder's Equity	**3.06 : 1.00** 401,930,647,506 / 131,406,500,770	**3.55 : 1.00** 347,785,565,362 / 97,969,922,833
Equity to Debt Ratio	Stockholder's Equity / Total Liabilities	**0.49 : 1.00** 131,406,500,770 / 270,524,146,736	**0.39 : 1.00** 97,969,922,833 / 249,815,642,529
Book Value per share	Stockholder's Equity / Total number of shares	**17.17 : 1.00** 90,407,466,859 / 5,265,866,000	**16.66 : 1.00** 69,128,149,249 / 4,149,866,000
Income (Loss) per share	Net Income (Loss) / Total number of shares	**1.71 : 1.00** 8,978,978,611 / 5,265,866,000	**1.21 : 1.00** 5,012,056,038 / 4,149,866,000
Interest Rate Coverage Ratio	EBIT / Interest Expense	**8.80 : 1.00** 25,194,117,414 / 2,863,933,204	**5.09 : 1.00** 15,555,037,261 / 3,055,774,809

Assets

Total assets as of June 30, 2022 amounted to P401.93 billion, wherein 3.07% represents cash and cash equivalents, 10.36% represents other current assets and 86.57% represents noncurrent assets. As of June 30, 2021, total assets amounted to P347.79 billion.

Liquidity and Capital Resources

As of June 30, 2022, current assets exceeded by the current liabilities by P 12.57 billion. The current ratio as of June 30, 2022 decreased as compared to June 30, 2021.

	June 30, 2022	June 30, 2021
Current Assets	P 53,961,097,499	P 51,298,215,097
Current Liabilities	66,529,537,297	65,139,802,688
Difference	(12,568,439,798)	(13,841,587,591)
Current Ratio	**0.81 : 1.00**	**0.79 : 1.00**

PART II--OTHER INFORMATION

The issuer may, at its option, report under this item any information not previously reported in a report on SEC Form 17-C. If disclosure of such information is made under this Part II, it need not be repeated in a report on Form 17-C which would otherwise be required to be filed with respect to such information or in a subsequent report on Form 17-Q.

SIGNATURES

Pursuant to the requirements of the Securities Regulation Code, the issuer has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

SYNERGY GRID & DEVELOPMENT PHILS., INC.

By:

PAUL P. SAGAYO, JR.
President

MA. THERESITA DE GUZMAN YULO
Comptroller

SYNERGY GRID & DEVELOPMENT PHILS., INC AND SUBSIDIARIES

CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2022, 2021 and December 31, 2021

SYNERGY GRID & DEVELOPMENT PHILS., INC. AND SUBSIDIARIES
(Formerly UEM Development Phils., Inc.)

INTERIM STATEMENTS OF FINANCIAL POSITION
30 June 2022
(With Comparative figures for 31 December 2021 and 30 June 2021)

		Audited	Unaudited Year to Date	
	Note	31 December 2021	30 June 2021	**30 June 2022**
ASSETS				
Noncurrent Assets				
Intangible asset - net	*5,8,27*	P 299,463,741,409	P 281,837,143,093	**P 312,279,914,970**
Property and equipment - net	*10*	4,130,585,421	3,968,008,593	**4,839,653,311**
Receivables - net of current portion	*12,24*	5,434,560,775	70,881,641	**15,975,480,175**
Goodwill	*9*	10,471,611,069	10,471,611,069	**10,471,611,069**
Other noncurrent assets		4,431,425,963	139,705,869	**4,402,890,482**
Total Noncurrent Assets		323,931,924,637	296,487,350,265	**347,969,550,007**
Current Assets				
Cash and cash equivalents	*11,24*	20,573,760,424	9,816,914,552	**12,332,317,591**
Receivables - net	*12,24*	11,427,275,264	14,722,287,908	**14,395,335,777**
Other current assets - net	*13*	25,898,195,623	26,759,012,637	**27,233,444,131**
Total Current Assets		57,899,231,311	51,298,215,097	**53,961,097,499**
		P 381,831,155,948	P 347,785,565,362	**P 401,930,647,506**
LIABILITIES AND EQUITY				
Noncurrent Liabilities				
Loans payable - net of current portion	*14,24*	P 135,857,153,722	P 126,484,587,934	**P 144,757,187,120**
Retirement benefits liability	*23*	2,114,687,362	1,885,976,867	**1,968,130,698**
Customers' and other deposits	*24*	389,336,529	396,191,965	**454,644,191**
Concession fee payable	*5,24*	54,319,128,352	54,319,128,352	**54,319,128,352**
Other noncurrent liabilities	*16*	2,686,808,747	1,589,954,723	**2,495,519,078**
Total Noncurrent Liabilities		195,367,114,712	184,675,839,841	**203,994,609,439**
Current Liabilities				
Trade and other current payables	*15,24,25*	44,397,585,905	39,762,642,047	**38,330,776,016**
Current portion of loans payable	*14,24*	15,378,916,893	14,721,169,312	**14,844,398,826**
Other current liabilities	*16,24*	13,287,394,126	10,655,991,329	**13,354,362,455**
Total Current Liabilities		73,063,896,924	65,139,802,688	**66,529,537,297**
Total Liabilities		268,431,011,636	249,815,642,529	**270,524,146,736**
Equity				
Capital stock	*6,17*	5,265,866,000	4,149,866,000	**5,265,866,000**
Additional paid-in capital	*6*	88,928,018,694	77,700,937,730	**88,928,018,694**
Remeasurement losses on defined benefit liabi	*6,23*	(110,098,975)	(60,413,315)	**(3,527,937)**
Equity adjustments from common control tran	*6*	(73,359,171,000)	(73,359,171,000)	**(73,359,171,000)**
Retained earnings	6,7	61,755,793,011	60,696,929,834	**69,576,281,102**
Equity Attributable to Equity Holders of the Parent Company		82,480,407,730	69,128,149,249	**90,407,466,859**
Non-controlling interests		30,919,736,582	28,841,773,584	**40,999,033,911**
Total Equity		113,400,144,312	97,969,922,833	**131,406,500,770**
		P 381,831,155,948	P 347,785,565,362	**P 401,930,647,506**

See Notes to Financial Statements

SYNERGY GRID & DEVELOPMENT PHILS., INC. AND SUBSIDIARIES
(Formerly UEM Development Phils., Inc.)

INTERIM STATEMENTS OF COMPREHENSIVE INCOME
30 June 2022
(With Comparative figures for 31 December 2021 and 30 June 2021)

		Audited	Unaudited Year to Date		Unaudited Quarter Ending	
	Note	31 December 2021	30 June 2021	**30 June 2022**	30 June 2021	**30 June 2022**
OPERATION SERVICE REVENUES - Ne	*20*	48,604,206,642	24,186,188,628	**35,513,976,163**	12,052,930,796	**23,331,263,215**
OPERATING EXPENSES						
Amortization of intangible asset	8	8,787,319,948	4,407,276,749	**4,387,695,441**	2,302,532,317	**2,218,683,627**
Salaries, wages and employee benefits	*21,23*	4,691,447,813	2,156,190,221	**2,367,648,753**	1,073,751,273	**1,159,705,046**
Repairs and maintenance		1,799,320,650	455,327,206	**714,886,226**	258,633,393	**455,758,476**
Depreciation	*3,10*	612,419,001	304,075,843	**339,373,959**	152,097,608	**197,873,192**
Insurance		533,634,921	247,108,989	**334,866,843**	134,127,808	**201,937,285**
Security and janitorial		480,569,408	241,395,785	**235,178,577**	112,081,046	**116,648,619**
Supervison and regulatory fees		468,433,750	234,216,875	**234,216,875**	117,108,438	**117,108,437**
Communication, light and water		447,733,565	208,076,247	**247,944,107**	120,088,987	**126,098,811**
Supplies and tools		255,686,888	139,838,246	**112,944,932**	95,570,477	**57,529,859**
Public relation and corporate social responsibility		298,774,240	96,118,728	**353,970,167**	54,213,551	**192,104,078**
Transportation and travel		235,646,261	92,661,796	**118,128,620**	53,216,886	**71,039,053**
Representation and enetertainment		107,822,495	70,824,347	**33,598,262**	50,517,188	**10,457,664**
Fuel and oil		149,272,120	53,695,632	**111,044,504**	28,379,539	**72,826,646**
Rent	*3,22*	94,305,241	44,299,875	**49,604,322**	22,579,085	**28,226,520**
Outside services		175,787,327	35,963,986	**217,766,538**	18,049,950	**144,482,878**
Taxes and licenses		56,923,750	35,979,390	**54,543,764**	24,578,212	**32,739,216**
Provision for impairment losses on receival	*12*	64,670,000	32,335,000	**32,335,000**	32,335,000	**32,335,000**
Professional fees		63,364,222	29,403,362	**14,498,073**	18,963,326	**7,865,255**
Advertising		16,712,065	8,634,037	**9,501,465**	5,999,091	**6,172,960**
Director's fee		20,820,000	7,500,000	**17,670,000**	3,750,000	**9,090,000**
Meetings and conferences		23,662,311	7,438,447	**7,053,613**	4,106,150	**4,073,434**
Charitable contributions		5,649,624	1,668,327	**4,996,120**	889,450	**3,859,506**
Filing fees		125,404,165	1,200,077	**2,006,200**	3,000	**-**
Miscellaneous		1,242,449	4,180,046	**13,970,834**	2,498,057	**7,845,224**
		19,516,622,214	8,915,409,211	**10,015,443,195**	4,686,069,832	**5,274,460,786**
INCOME (LOSS) FROM OPERATIONS		29,087,584,428	15,270,779,417	**25,498,532,968**	7,366,860,964	**18,056,802,429**
OTHER CHARGES - Net						
Interest expense	*3,5,14*	(6,056,733,815)	(3,055,774,809)	**(2,863,933,204)**	(1,522,616,230)	**(1,431,312,299)**
Interest income	*11,*	64,337,554	31,805,532	**97,091,256**	15,999,609	**52,930,779**
Foreign exchange gain - net	*24*	(244,628,027)	112,590,824	**(392,282,011)**	(59,282,726)	**(270,459,590)**
Bank and finance charges	*14*	(224,999,243)	(103,641,785)	**(111,522,302)**	(54,834,895)	**(56,232,201)**
Miscellaneous income		319,447,149	243,503,273	**102,297,503**	209,387,033	**69,519,962**
		(6,142,576,382)	(2,771,516,965)	**(3,168,348,758)**	(1,411,347,209)	**(1,635,553,349)**
CONSTRUCTION REVENUE AND COSTS						
Construction revenues		40,496,333,357	18,489,691,842	**17,196,012,750**	18,489,691,842	**9,983,307,079**
Construction costs		(40,496,333,357)	(18,489,691,842)	**(17,196,012,750)**	(18,489,691,842)	**(9,983,307,079)**
		-	-	-	-	-
NET INCOME BEFORE TAX		22,945,008,046	12,499,262,452	**22,330,184,210**	5,955,513,755	**16,421,249,080**
INCOME TAX EXPENSE		2,434,757	172,897	**14,804,914**	200,390	**7,151,977**
NET INCOME		22,942,573,289	12,499,089,555	**22,315,379,296**	5,955,313,365	**16,414,097,103**
Attributable to:						
Equity holders of the Parent Company		9,124,966,265	5,012,056,038	**8,978,978,611**	2,386,015,710	**6,601,204,973**
Non-controlling interests		13,817,607,024	7,487,033,517	**13,336,400,685**	3,569,297,655	**9,812,892,130**
		22,942,573,289	12,499,089,555	**22,315,379,296**	5,955,313,365	**16,414,097,103**
OTHER COMPREHENSIVE INCOME						
Item that will never be reclassified to profit or loss						
Remeasurement gains on defined benefit li	*23*	104,158,044	227,754,213	**265,102,084**	227,754,213	**265,102,084**
TOTAL COMPREHENSIVE INCOME		P 23,046,731,333	P 12,726,843,768	l **22,580,481,380**	P 5,727,559,152	**P 16,679,199,187**
Attributable to:						
Equity holders of the Parent Company		9,166,837,799	5,103,613,232	9,085,549,651	2,477,572,904	**6,707,776,013**
Non-controlling interests		13,879,893,534	7,623,230,536	13,494,931,729	3,705,494,674	**9,971,423,174**
		23,046,731,333	12,726,843,768	**22,580,481,380**	6,183,067,578	**16,679,199,187**
BASIC AND DILUTED						
INCOME (LOSS) PER SHARE	*18*	P 2.10	P 1.21	**P** 1.71	P 0.63	**P 1.25**

See Notes to Financial Statements

SYNERGY GRID & DEVELOPMENT PHILS., INC. AND SUBSIDIARIES
(Formerly UEM Development Phils., Inc.)

INTERIM STATEMENTS OF CHANGES IN EQUITY
30 June 2022
(With Comparative figures for 31 December 2021 and 30 June 2021)

	Note		**Audited**		**Unaudited Year to Date**		
			31 December 2021		30 June 2021		**30 June 2022**
CAPITAL STOCK - P1 par value							
Authorized - 5,300,000,000 shares							
Issued/subscribed (paid)	6	P	4,149,866,000	P	4,149,866,000	**P**	**5,265,866,000**
Stocks issued during the period			1,116,000,000		-		**-**
		P	5,265,866,000	P	4,149,866,000	**P**	**5,265,866,000**
ADDITIONAL PAID-IN CAPITAL							
Balance at beginning of period	6	P	77,907,600,000	P	77,907,600,000	**P**	**88,928,018,694**
Issuance of capital stock			11,588,500,000		-		**-**
Share issuance costs			(568,081,306)		(206,662,270)		**-**
		P	88,928,018,694	P	77,700,937,730	**P**	**88,928,018,694**
EQUITY ADJUSTMENTS FROM COMMON CONTROL TRANSACTIONS							
Balance at beginning of period	6	P	(73,359,171,000)	P	(73,359,171,000)	**P**	**(73,359,171,000)**
		P	(73,359,171,000)	P	(73,359,171,000)	**P**	**(73,359,171,000)**
EQUITY RESERVES							
Balance at beginning of period	6	P	(151,970,509)	P	(151,970,509)	**P**	**(110,098,975)**
Remeasurement gain on defined benefit liability			41,871,534		91,557,194		**106,571,038**
		P	(110,098,975)	P	(60,413,315)	**P**	**(3,527,937)**
RETAINED EARNINGS							
Balance at beginning of period			55,684,873,796		55,684,873,796		**61,755,793,011**
Net income (loss) for the period			9,124,966,265		5,012,056,038		**8,978,978,611**
Dividend			(3,054,047,050)		-		**(1,158,490,520)**
Balance at end of the period			61,755,793,011		60,696,929,834		**69,576,281,102**
		P	82,480,407,730	P	69,128,149,249	**P**	**90,407,466,859**
NON-CONTROLLING INTEREST							
Balance at beginning of period	6	P	25,418,543,048	P	25,418,543,048	**P**	**30,919,736,582**
Net income (loss) for the period			13,817,607,024		7,487,033,517		**13,336,400,683**
Dividends			(8,378,700,000)		(4,200,000,000)		**(3,415,634,400)**
Remeasurement gain on defined benefit liability			62,286,510		136,197,019		**158,531,046**
		P	30,919,736,582	P	28,841,773,584	**P**	**40,999,033,911**
TOTAL EQUITY		P	113,400,144,312	P	97,969,922,833	**P**	**131,406,500,770**

SYNERGY GRID & DEVELOPMENT PHILS., INC. AND SUBSIDIARIES
(Formerly UEM Development Phils., Inc.)

INTERIM STATEMENTS OF CASH FLOWS
30 June 2022
(With Comparative figures for 31 December 2021 and 30 June 2021)

			Audited		Unaudited Year to Date		
	Note		31 December 2021		30 June 2021		**30 June 2022**
CASH FLOWS FROM OPERATING ACTIVITIES							
Income (loss) before income tax		P	22,945,008,046	P	12,499,262,452	**P**	**22,330,184,210**
Adjustments for:							
Amortization of intangible asset			8,787,319,948		4,407,276,749		**4,387,695,441**
Interest expense	5,14		6,056,733,815		3,055,774,809		**2,863,933,204**
Impairment of creditable withholding tax	*8*		(8,064,980)		899,206		**-**
Depreciation	*10*		612,419,001		304,075,843		**339,373,959**
Provision for impairment losses on receivabl	*12*		64,670,000		32,335,000		**32,335,000**
Retirement benefit cost	*23*		261,224,272		125,095,312		**132,061,233**
Interest income			(64,337,554)		(31,805,532)		**(97,091,256)**
Unrealized foreign exchange gain (loss) - ne	*24*		(179,869,031)		(275,877,625)		**172,937,010**
Operating income before working capital changes			38,475,103,517		20,117,036,214		**30,161,428,801**
Decrease (Increase) in:							
Receivables			(973,785,933)		(1,115,995,845)		**(12,875,651,958)**
Prepaid rent amd other current assets			(3,018,714,620)		(1,558,688,889)		**(2,027,278,867)**
Increase (Decrease) in							
Trade and other current payables			(6,236,431,721)		(10,434,251,573)		**(7,123,566,345)**
Other current liabilities			2,759,411,204		764,034,869		**1,009,563,685**
Customers' and other deposits			(11,528,866)		(4,673,431)		**65,307,661**
Other noncurrent liabilities			1,140,614,053		(161,989,022)		**(334,597,912)**
Cash absorbed by operations			32,134,667,634		7,605,472,323		**8,875,205,065**
Interest paid	*5,24*		(6,743,508,559)		(3,671,697,818)		**(2,415,710,602)**
Interest received			73,664,020		40,738,978		**92,730,631**
Income tax paid			(2,345,237)		(171,124)		**(14,805,134)**
Retirement contribution paid			(112,002,237)		(58,827,074)		**(35,014,152)**
Net used in operating activities			25,350,475,621		3,915,515,285		**6,502,405,808**
CASH FLOWS FROM INVESTING ACTIVITIES							
Investment in capital expenditures	*8,13,23*		(35,219,301,477)		(9,181,143,953)		**(16,483,745,599)**
Additions to property and equipment	*10*		(767,501,915)		(297,188,436)		**(1,048,691,427)**
Decrease in other noncurrent assets			198,330		12,401		**642,018**
Net cash used in investing activities			(35,986,605,062)		(9,478,319,988)		**(17,531,795,008)**
CASH FLOWS FROM FINANCING ACTIVITIES							
Proceeds of loans payable	*14*		29,500,000,000		12,000,000,000		**15,900,000,000**
Payment of cash dividends			(10,462,230,633)		(4,200,000,000)		**(5,539,958,360)**
Payment of loans payable	*14*		(13,895,000,000)		(6,479,564,774)		**(7,534,484,670)**
Other - Debt issue cost related transactions			(54,251,405)		-		**-**
Issuance of shares			62,500,000		-		**-**
Settlement of obligation under lease liabilities	*22*		(93,888,442)		(51,772,762)		**(51,319,821)**
Proceeds from FOO			12,642,000,000		-		**-**
Transaction costs relating to issuance of shares			(568,081,306)		(206,662,270)		**-**
Advances from shareholders			(250,051,483)		-		**-**
Net cash provided by (used in) financing activities			16,880,996,731		1,062,000,194		**2,774,237,149**
EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS			247,708,676		236,534,603		**13,709,218**
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS			6,492,575,966		(4,264,269,906)		**(8,241,442,833)**
CASH AND CASH EQUIVALENTS AT BEGINNING OF THE PERIOD			14,081,184,458		14,081,184,458		**20,573,760,424**
CASH AND CASH EQUIVALENTS AT END OF THE PERIOD	*11*	P	20,573,760,424	P	9,816,914,552	**P**	**12,332,317,591**

See Notes to Financial Statements

SYNERGY GRID & DEVELOPMENT PHILS., INC. AND SUBSIDIARIES
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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 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 shareholder’s 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 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 1,053,500,000 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 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
	Direct	**Indirect**	Incorporation
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 SGDPI, under the symbol “SGP”, 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.

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.

NGCP has filed its application for increase in authorized capital stock and creation of non-voting preferred shares with the SEC. On April 12, 2022, upon signing of the Subscription Contract over the non-voting preferred shares of NGCP which is required for the application with the SEC, the Company paid 25% of its total subscription of P12,238,163,000, amounting to P3,059,540,750. The Parent Company fully paid the subscription on June 9, 2022.

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 25th anniversary of the commencement date. The Concession can be extended but not to exceed beyond the 50th 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% of the outstanding capital stock of NGCP, SGP’s sole operating asset with an effective equity interest of 40.2%.

<u>Significant Contracts and Agreements</u>

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 2022 and 2021, the Group 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:

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

Expenses incurred pertaining to these agreements are included in "Outside services" and "Professional fees" accounts in profit or loss.

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 at June 30, 2022, the Company entered into new construction contracts amounting to P20.02 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 - (Currimao 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)
- Laguindingan230kV bus-in to Balo-I - Villanueva and Nasipit138kV 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)

For 2022, the Capital Expenditures approved by NGCP's Board on March 25, 2021 amounted to P37.60 billion.

As of December 31, 2021, the Group entered into new construction contracts amounting to P47.72 billion, among the major contracts are as follows:

- Erection and Construction for CNP 230kv Backbone Project - Stage 3, Negros Side Transmission Line (Calatrava - Cadiz - E.B. Magalona Substations)
- Luzon Voltage Improvement Project 3, Stage 2 - Schedule V (Botolan S/S and Itogon S/S) and North Luzon Substation Upgrading Project, Stage 1 - Schedule VIII (Quezon S/S)
- Mindanao Substation Expansion 4 Project Schedule I - Design, Supply, Installation, Testing and Commissioning of Power Transformers (Naga-Min, Polanco, Agus 6 and Maramag SS) - Offshore Portion
- Mindanao Substation Upgrading 2 Project Schedule I - Design, Supply, Installation and Commissioning of Power Transformers (Balo-I, Jasaan, Kibawe and Butuan SS) - Offshore Portion
- Package C: Mindanao - Visayas Interconnection Project (Dapitan - Lala and Dumanjug - Santander 350kV HVDC Transmission Lines)
- Service Agreement for Engineering Geological and Geotechnical Investigation Services of Transmission Line and Substation Projects
- Design, Manufacture, Delivery, Installation, Assembly, Testing and Commissioning of Spare Power Transformer Schedule III - 2x100mva, 230/69/13.8KV; 1x100MVA, 138/69/13.8KV; 1x100MVA, 115/34.5KV Power Transformers
- Mindanao Substation Upgrading 2 Project Schedule III - Design, Supply, Installation and Commissioning of Power Transformers (Kidapawan and General Santos SS) - Offshore Portion
- Design, Manufacture, Delivery, Installation, Assembly, Testing and Commissioning of Spare Power Transformers, Schedule II - 2x150MVA, 230/138/13.8kV Power Transformer
- Supply and Delivery of Thirty-Five (35) Units Line Trucks
- Supply and Delivery of IED Meters

- Supply and Delivery of Current Transformer, Combined Instrument Transformer and Voltage Transformer (Batch 2)
- Supply of Labor, Tools, Materials, Supplies and Equipment for the Installation of Deluge Water Spray System for the Power Transformer at Various Substation of O and M
- Replacement of Surge Arrester at Cabacungan Cts (Cabacungan Cable Terminal Station, Brgy Cabacungan Allen Northern Samar) To Facilitate the Local Delivery of Foreign Supplied Materials, Installation, Assembly, Testing and Commissioning and Training
- Cebu-Lapulapu Transmission Project (Submarine Cable Portion) Re-Bidding
- North Luzon Substation Upgrading Project 2, Schedule III - Design, Supply, Installation, Testing and Commissioning at San Manuel and Nagsaag Substations
- North Luzon Substation Upgrading Project 2, Schedule IV - Design, Supply, Installation, Testing, and Commissioning of HV Equipment at San Jose Substation
- Remaining Works for Hermosasan Jose 500KV Transmission Line Project
- Visayas Substation Upgrading Project 2, Schedule IV - Design, Supply, Installation, Testing and Commissioning of High Voltage Equipment Including Secondary Devices at Dingle Substation
- Visayas Substation Upgrading Project 2, Schedule VIII at Corella and Ubay Substation
- Visayas Substation Upgrading Project 2, Schedule VII - at Daanbantayan, Compostela, Calong-Calong, Toledo and Samboan Substations
- Mindanao Substation Upgrading 2 Project, Schedule IV - Design, Supply, Installation, Testing & Commissioning of High Voltage Equipment Including Secondary Devices at Balo-I, Jasaan, Kibawe & Butuan S/S
- South Luzon Substation Upgrading Project 2, Schedule IV - Design, Supply, Installation, Testing and Commissioning of High Voltage Equipment Including Secondary Devices at Calaca and Tuy Substations
- Supply and Delivery of Steel Towers for the Hermosa - San Jose 500kv TL Project (Remaining Works)
- Visayas Substation Upgrading Project 2, Schedule IX at Kabankalan and Mabinay Substations
- Visayas Substation Upgrading Project 2, Schedule V - Design, Supply, Installation, Testing and Commissioning of High Voltage Equipment Including Secondary Devices at Calbayog and Paranas Substations
- Visayas Substation Upgrading Project 2, Schedule Vi - Design, Supply, Installation, Testing and Commissioning of High Voltage Equipment Including Secondary Devices at Tabango, Isabel and Maasin Ss
- Bataan Grid 230kv Reinforcement Project (Erection/Construction of Intermediate Steel Poles for The Raising of Conductor Sags of Mexico - Hermosa 230kv Transmission Line Project
- San Francisco - Tago 138kv Transmission Line Project (Substation Portion)
- South Luzon Substation Upgrading Project 2, Schdule III at Lumban, Gumaca, Labo, Naga and Daraga Substations.
- Abuyog 230kv Substation Project (Transmission Line Portion)
- Erection and Construction of Tuy (Calaca) Dasmarinas 500 KV Transmission Line Project (TL Portion)
- Mindanao Substation Expansion 4 Project, Schedule Iii; Zamboanga Peninsula Voltage Improvement Project, Schedule Ii; And Mindanao Substation Expansion 3 Project
- Mindanao Substation Upgrading 2 Project, Schedule V - Design, Supply, Installation, Testing and Commissioning of High Voltage Equipment Including Secondary Devices at Davao, Toril & Bunawan SS
- Negros - Panay 230kv Interconnection Line 2 Project (Substation Portion) - Barotac Viejo and E.B Magalona Substations Expansion Project

- North Luzon Substation Upgrading Project 2, Schedule V, Concepcion Substation - Design, Supply, Installation, Testing and Commissioning of High Voltage Equipment Including Secondary Devices
- Pinamucan 500kv Substation Projects
- Porac 230kv Substation Project
- South Luzon Substation Upgrading Project 2, Schedule V - Design, Supply, Installation, Testing & Commissioning of Hv Equipment Including Secondary Devices at Biñan, Dasmariñas & Muntinlupa S/S
- Western Luzon 500kv Backbone Project (Stage 2) Schedule I - Castillejos 500kv And Balsik 500kv Substation Portion and Castillejos 230kv Substation Portion

For 2021, the Capital Expenditures approved by NGCP's Board on March 19, 2020 amounted to P50.51 billion, which was recalibrated down to around P38.96 billion considering the impact of COVID-19.

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 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.

The remaining project, San Jose S/S under Luzon PCB Replacement Project, was completed on January 31, 2021.

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.

In 2020, the only ongoing construction contract related to the PUC is Luzon PCB Replacement Project San Jose & Malaya S/S.

Republic Act No. 9511
Republic Act No. 9511 (RA 9511), which took effect on December 20, 2008, granted the Group 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. 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.

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 Reporting Standards Council (FRSC).

The accompanying consolidated financial statements were authorized for issue by the Board of Directors (BOD) on August 10, 2022.

Basis of Measurement
The consolidated financial statements have been prepared on the historical cost basis of accounting except for derivative financial instruments, which have been measured at fair value, 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 losses 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.

The Group has previously restated its consolidated financial statements to account the Share Swap Transaction which is considered to be a business combination of entities under common control using the pooling of interest method, with the consolidated financial statements as at December 31, 2020 and 2019, and for each of the three years in the period ended December 31, 2020, being restated as if the entities had always been combined for the periods that the entities were under common control (see Note 6).

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:

Determination of Functional Currency

Based on the economic substance of the underlying circumstances relevant to the Group, the functional currency of the Group has been determined to be the Philippine peso. It is the currency of the primary economic environment in which the Group operates and the currency that mainly influences its revenue and expenses.

Classifying Financial Instruments

The Group exercises judgments in classifying a financial instrument, or its component parts, on initial recognition as a financial asset, a financial liability or an equity instrument in accordance with the substance of the contractual arrangement and the definitions of a financial asset or liability. The substance of a financial instrument, rather than its legal form, governs its classification in the consolidated statements of financial position.

On initial recognition, the Group classifies its financial assets in the following categories: amortized cost; fair value through other comprehensive income (FVOCI) - debt investment, FVOCI - equity investment or fair value through profit or loss (FVTPL). The classification of financial assets under PFRS 9, *Financial Instruments* is generally based on the business model which a financial asset is managed and its contractual cash flow characteristics. Derivatives embedded in contracts where the host is a financial asset are never separated. Instead, the hybrid financial instruments as a whole are assessed for classification (see Note 3).

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).

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.

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 June 30, 2022 and December 31, 2021, 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 June 30, 2022 and December 31, 2021 amounted to P4.84 billion and P4.13 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 2022 and 2021. As at June 30, 2022 and 2021, 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.

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 June 30, 2022 and December 31, 2021, the estimated residual value of intangible assets from completed projects at the end of the concession period amounted to P40.62 billion and P39.83 billion, respectively (see Note 8).

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 June 30, 2022 and 2021. The carrying amount of goodwill amounted to P10.47 billion as at June 30, 2022 and June 30, 2021 (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 June 30, 2022 and 2021 amounted to P132.06 million and P125.10 million, respectively. Retirement benefits liability as at June 30, 2022 and December 31, 2021 amounted to P1.97 billion and P 2.11 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 June 30, 2022 and June 30, 2021.

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).

3. Summary of Significant Accounting Policies

The accounting policies set out below have been applied consistently to all periods presented in these consolidated financial statements, except for the changes in accounting policies as explained below.

<u>Adoption of Amendments to Standards and Interpretations</u>
The Financial Reporting Standards Council (FRSC) approved the adoption of amendments to standards and interpretations as part of PFRS. The following standards are relevant to the Group and have been adopted starting January 1, 2021.

- *Amendments to PFRS 16, Leases (COVID-19-Related Rent Concessions).* The amendments introduce an optional practical expedient that simplifies how a lessee accounts for rent concessions that are a direct consequence of COVID-19. A lessee that applies the practical expedient is not required to assess whether eligible rent concessions are lease modifications, and accounts for them in accordance with other applicable guidance. The resulting accounting will depend on the details of the rent concession.

  The practical expedient will only apply if:

  - the revised consideration is substantially the same or less than the original consideration;

  - the reduction in lease payments relates to payments due on or before December 31, 2021; and

  - no other substantive changes have been made to the terms of the lease.

  The amendments are effective for periods on or after June 1, 2020. A lessee applies the amendments retrospectively and recognizes the cumulative effect of initially applying them in the opening retained earnings or other component of equity, as appropriate. The adoption of the amendments did not have a material effect to the consolidated financial statements.

Amended Standards and Framework Not Yet Adopted

A number of amendments to standards, and framework are effective for annual periods beginning after January 1, 2021 and have not been applied in preparing these consolidated financial statements. Unless otherwise stated, none of these are expected to have a significant impact on the Group's consolidated financial statements.

Effective April 1, 2021

- *COVID-19-Related Rent Concessions beyond 30 June 2021 (Amendment to PFRS 16 Leases).* The amendment extends the practical expedient introduced in the 2020 amendment which simplified how a lessee accounts for rent concessions that are a direct consequence of COVID-19, permitting lessees to apply the practical expedient to rent concessions for which any reduction in lease payments affects only payments originally due on or before June 30, 2022.

  The amendment is effective for annual reporting periods beginning on or after April 1, 2021. Earlier application is permitted. A lessee applies the amendments retrospectively, recognizing the cumulative effect of the amendments as an adjustment to the opening balance of retained earnings or other component of equity, as appropriate. The adoption is mandatory for lessees that chose to apply the practical expedient introduced by the 2020 amendments and may result in reversal of lease modifications that was ineligible for the practical expedient under the 2020 amendments, but becomes eligible as a result of the extension.

Effective January 1, 2022

- *Property, Plant and Equipment - Proceeds before Intended Use (Amendments to PAS 16 Property, Plant and Equipment).* The amendments prohibit an entity from deducting from the cost of an item of property, plant and equipment the proceeds from selling items produced before that asset is available for use. The proceeds before intended use should be recognized in profit or loss, together with the costs of producing those items which are identified and measured in accordance with PAS 2 Inventories.

  The amendments also clarify that testing whether an item of property, plant and equipment is functioning properly means assessing its technical and physical performance rather than assessing its financial performance.

  For the sale of items that are not part of a company's ordinary activities, the amendments require the Group to disclose separately the sales proceeds and related production cost recognized in profit or loss and specify the line items in which such proceeds and costs are included in the statement of comprehensive income. This disclosure is not required if such proceeds and cost are presented separately in the statement of comprehensive income.

  The amendments are effective for annual reporting periods beginning on or after January 1, 2022. Earlier application is permitted. The amendments apply retrospectively, but only to items of property, plant and equipment made available for use on or after the beginning of the earliest period presented in the financial statements in which the Group first applies the amendments.

- Onerous Contracts - Cost of Fulfilling a Contract (Amendments to PAS 37, *Provisions, Contingent Liabilities and Contingent Assets*). The amendments clarify that the cost of fulfilling a contract when assessing whether a contract is onerous includes all costs that relate directly to a contract - i.e. it comprises both incremental costs and an allocation of other direct costs.

The amendments are effective for annual reporting periods beginning on or after January 1, 2022 to contracts existing at the date when the amendments are first applied. At the date of initial application, the cumulative effect of applying the amendments is recognized as an opening balance adjustment to retained earnings or other component of equity, as appropriate. The comparatives are not restated. Earlier application is permitted.

- *Annual Improvements to PFRS 2018-2020 Cycle.* This cycle of improvements contains amendments to four standards, of which, only the following are applicable to the Group:

  - *Fees in the "10 percent" Test for Derecognition of Financial Liabilities (Amendment to PFRS 9, Financial Instruments).* This amendment clarifies that - for the purpose of performing the "10 percent" for derecognition of financial liabilities - in determining those fees paid net of fees received, a borrower includes only fees paid or received between the borrower and the lender, including fees paid or received by either the borrower or lender on the other's behalf.

  - *Lease Incentives (Amendment to Illustrative Examples Accompanying PFRS 16, Leases).* The amendment removes the illustration of payments from the lessor relating to leasehold improvements. As currently drafted, this example is not clear as to why such payments are not a lease incentive.

  The amendments are effective for annual reporting periods beginning on or after January 1, 2022. Earlier application is permitted.

Effective January 1, 2023

- Classification of Liabilities as Current or Noncurrent (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 a right to defer settlement exists only if an entity complies with conditions specified in the loan agreement at the end of the reporting period, even if the lender does not test compliance until a later date; 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, 2023, with early application permitted.

In November 2021, the International Accounting Standards Board issued the *Exposure Draft, Non-Current Liabilities with Covenants* after considering stakeholder feedback on the December 2020 tentative agenda decision issued by the IFRS Interpretations Committee about the amendments. The exposure draft proposes to again amend PAS 1 as follows:

- conditions which the entity must comply within twelve months after the reporting period will have no effect on the classification as current or non-current;

- additional disclosure requirements will apply to non-current liabilities subject to such conditions to enable the assessment of the risk that the liability could become repayable within twelve months; and

- separate presentation in the statement of financial position will be required for non-current liabilities for which the right to defer settlement is subject to conditions within 12 months after the reporting period.

The effective date of the amendments will be deferred to no earlier than January 1, 2024.

Comments on the Exposure Draft was due on March 21, 2022.

- *Disclosure of Accounting Policies (Amendments to PAS 1 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.

  The amendments are effective from January 1, 2023. Earlier application is permitted.

- *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 are effective for annual reporting periods beginning on or after January 1, 2023, with earlier application permitted, and 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.

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 routinary 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, where costs related to infrastructure and equipment arising from the Group's commitments to the Concession Agreement, results to the increase in future revenue received by the Group from the enhancement of the intangible asset results to increase the rights/license to charge users of the public service as Concessionaire of Transmission Assets. 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.

Computer Software and License

Computer software and license include costs incurred in the development and acquisition of computer software and license used in operations. Computer software and license is amortized when it is available for use on a straight-line method over its estimated useful life of five (5) years.

Gains or losses arising from derecognition of the intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognized in profit or loss when the asset is derecognized.

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, for an item not at FVTPL, 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. Derivatives embedded in contracts where the host is a financial asset in the scope of the standard are never separated. Instead, the hybrid financial instrument as a whole is assessed for classification.

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.

A debt investment is measured at FVOCI 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 achieved by both collecting contractual cash flows and selling financial assets; 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.

On initial recognition of an equity instrument that is not held for trading, the Group may irrevocably elect to present subsequent changes in the investment’s fair value in OCI. This election is made on an investment-by-investment basis.

All financial assets not classified as measured at amortized cost or FVOCI as described above are measured at FVTPL. This includes all derivative financial assets. On initial recognition, the Group may irrevocably designate a financial asset that otherwise meets the requirements to be measure at amortized cost or at FVOCI as at FVTPL if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise.

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 salary 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.

Financial assets that are held for trading or are managed and whose performance is evaluated on a fair value basis are measured at FVTPL.

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 at December 31, 2021 and December 31, 2020. Other financial assets are classified as financial assets at FVTPL or FVOCI based on the characteristics of the contractual cash flows of the instruments.

Subsequent Measurement and Gains and Losses
Financial Assets at FVTPL. These assets are subsequently measured at fair value. Net gains and losses, including any interest or dividend income, are recognized in profit or loss.

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 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.

<u>Derecognition of Financial Assets and Liabilities</u>
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.

Determination of Fair Value
The Group measures financial instruments at fair value at each reporting date.

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

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

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

- Level 1: quoted 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 consolidated financial statements on a recurring basis, the Group determines whether transfers have occurred between Levels in the hierarchy by re-assessing the categorization at the end of each reporting period.

'Day 1' Profit. Where the transaction price in a non-active market is different from the fair value from other observable current market transactions in the same instrument or based on a valuation technique whose variables include only data from observable market, the Group recognizes the difference between the transaction price and the fair value (a 'Day 1' profit) in profit or loss unless it qualifies for recognition as some other type of asset. In cases where data used is not observable, the difference between the transaction price and model value is only recognized in profit or loss when the inputs become observable or when the instrument is derecognized. For each transaction, the Group determines the appropriate method of recognizing the 'Day 1' profit amount.

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, amortization 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 less residual value.

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.

Goodwill
Goodwill that arises in a business combination is initially measured at cost being the excess of the cost of the business combination over the Group's interest in the net fair value of the identifiable assets, liabilities, and contingent liabilities of the acquiree. Transaction costs, other than those associated with the issue of debt or equity securities, that the Group incurred in connection with business combinations were capitalized as part of the cost of acquisition. Following initial recognition, goodwill is stated at cost less any accumulated impairment losses. Goodwill is reviewed for impairment, annually or more frequently if events or changes in circumstances indicate that the carrying amount may be impaired.

Impairment is determined by assessing the recoverable amount of the cash-generating unit or group of cash-generating units, to which the goodwill relates. Where the recoverable amount of the cash-generating unit or group of cash-generating units is less than the carrying amount, an impairment loss is recognized. Where goodwill forms part of a cash-generating unit or group of cash-generating units and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in this circumstance is measured based on the relative values of the operation disposed of and the portion of the cash-generating unit retained. An impairment loss with respect to goodwill is not reversed.

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. 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 consolidated statements of income.

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 common 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 customers' 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 customers' 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 Republic Act No. 9136 (RA 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 Republic Act 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.

Leases
At inception of a contract, the Group assesses whether a contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. To assess whether a contract conveys the right to control the use of an identified asset, the Group assesses whether:

- the contract involves the use of an identified asset - this may be specified explicitly or implicitly, and should be physically distinct or represent substantially all of the capacity of a physical distinct asset. If the supplier has a substantive substitution right, then the asset is not identified;

- the Group has the right to obtain substantially all of the economic benefits from use of the asset throughout the period of use; and

- the Group has the right to direct the use of the asset. The Group has the right when it has the decision-making rights that are most relevant to changing how and for what purpose the asset is used. In rare cases where the decision about how and for what purpose the asset is used is predetermined, the Group has the right to direct the use of the asset if either:

  - the Group has the right to operate the asset; or
  - the Group designed the asset in a way that predetermines how and for what purpose it will be used.

The Group recognizes a right-of-use asset and a lease liability at the lease commencement date. The right-of-use asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred and an estimate of costs to dismantle and remove the underlying asset or the site on which it is located, less any lease incentives received.

The right-of-use asset is subsequently depreciated using the straight-line method from the commencement date to the earlier of the end of the useful life of the right-of-use asset or the end of the lease term. The estimated useful lives of right-of-use assets are determined on the same basis as those of property and equipment. In addition, the right-of-use asset is periodically reduced by impairment losses, if any, and adjusted for certain remeasurements of the lease liability.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Group's incremental borrowing rate. Generally, the Group uses its incremental borrowing rate as the discount rate.

Lease payments included in the measurement of the lease liability comprise the following:

- fixed payments, including in-substance fixed payments;
- variable lease payments that depend on an index or a rate, initially measured using the index or rate as at the commencement date;
- amounts expected to be payable under a residual value guarantee; and
- the exercise price under a purchase option that the Group is reasonably certain to exercise an extension option, and penalties for early termination of a lease unless the Group is reasonably certain not to terminate early.

The lease liability is measured at amortized costs using the effective interest method. It is remeasured when there is a change in future lease payments arising from a change in an index or rate, if there is a change in a Group's estimate of the amount expected to be payable under a residual value guarantee, or if the Group changes its assessment of whether it will exercise a purchase, extension or termination option.

When the lease liability is remeasured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use asset or is recorded in profit or loss if the carrying amount of the right-of-use asset has been reduced to zero.

The Group presents right-of-use assets that do not meet the definition of investment property in "Property, plant and equipment" and lease liabilities in "Trade and other current payables" and "Other noncurrent liabilities".

Short-term Leases and Leases and Leases of Low-value Assets
The Group has elected not to recognize right-of-use assets and lease liabilities for short-term leases of machinery that have a lease term of 12 months or less and leases of low-value assets, including IT equipment. The Group recognizes the lease payments associated with these leases as an expense on a straight-line basis over the lease term.

Foreign Exchange Transactions
Transactions in foreign currencies are recorded in Philippine peso based on the exchange rates prevailing at the transaction dates. Foreign currency denominated monetary assets and liabilities are retranslated into Philippine peso using the exchange rate prevailing at the reporting date. Exchange gains and losses arising from foreign currency denominated items at rates different from those at which they were previously recorded are recognized in profit or loss.

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.

Value Added Tax (VAT)

Revenues, expenses and assets are recognized net of the amount of VAT, except:

(a) 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

(b) receivables and payables that are stated with the amount of tax included.

The net amount of tax recoverable from, or payable to, the taxation authority is included as part of “Prepaid expenses and other current assets” or “Trade and other current payables” in the consolidated statements of financial position.

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 Group, 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.

Operating Segments

The Group has only one operating segment which is the transmission business. The Group’s results of operations are reviewed by the Management to make decisions and to assess Group performance, and for which discrete financial information is available.

The Group’s performance is evaluated based on net income for the year; earnings before interest, taxes and depreciation and amortization (EBITDA) and EBITDA margin. Net income for the year is measured consistent with the net income in the consolidated statements of income.

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 consolidated financial statements. These are disclosed in the notes to the consolidated financial statements unless the possibility of an outflow of resources embodying economic benefits is remote. Contingent assets are not recognized in the consolidated financial statements but are disclosed in the notes to the consolidated 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 consolidated financial statements. Post year-end events that are not adjusting events are disclosed in the notes to the consolidated financial statements when material.

4. 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, through NGCP, 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^{th} 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.

<u>Standby Letter of Credit</u>
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 15, 2021 until October 15, 2022.

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.

5. Concession Fee

As discussed in Note 4 to the 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 statements of financial position as at December 31, 2021 and 2020 (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.

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 Fee 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 Fee 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 June 30, 2022 and 2021 recognized in profit or loss amounted to P1.44 billion (see Note 14).

6. Business Combination under 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.

In accordance with the requirements of the SEC, the Group previously issued on August 10, 2022 consolidated financial statements as at December 31, 2020 and 2019, and for each of the three years in the period ended December 31, 2020, to comply with the requirements for the filing of registration statement in relation to the Parent Company's follow-on offering of its shares (see Note 1). For this particular purpose and in accordance with Philippine Interpretations Committee (PIC) Questions and Answer (Q&A) 2021-01 (amended June 2018), 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:

	June 30, 2022			December 31, 2021		
	Consolidated OTHI	**Consolidated P21**	**NGCP**	Consolidated OTHI	Consolidated P21	NGCP
Percentage of non-controlling interests	**33%**	**33%**	**40%**	33%	33%	40%
Carrying amount of non-controlling interests	**(P12,237,838,684)**	**(P15,931,360,764)**	**P69,168,233,358**	(P11,673,763,187)	(P15,367,286,117)	P57,960,785,886
Net income attributable to non-controlling interests	**(P818,296)**	**(P817,447)**	**P13,338,036,426**	(P5,560,921)	(P5,265,415)	P13,828,433,360
Other comprehensive income attributable to non-controlling interests	**P -**	**P -**	**(P158,531,046)**	P -	P -	(P62,286,510)
Dividends paid to non-controlling interests	**P563,257,200**	**P563,257,200**	**P2,289,120,000**	P1,789,350,000	P1,789,350,000	P4,800,000,000

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

	June 30, 2022			December 31, 2021		
	Consolidated OTHI	**Consolidated P21**	**NGCP**	Consolidated OTHI	Consolidated P21	NGCP
Current assets	**P69,979,349**	**P31,568,975**	**P52,085,353,241**	P46,035,832	P33,780,567	P44,261,323,979
Noncurrent assets	**42,753,863,437**	**32,503,296,455**	**337,494,706,333**	37,700,837,445	27,449,955,595	313,456,067,974
Current liabilities	**27,537,257**	**845,284,939**	**65,650,267,204**	101,309	843,692,617	71,222,767,322
Noncurrent liabilities	**9,689**	**14,359**	**203,994,580,082**	9,689	13,548	195,367,086,166
Net assets	**P42,796,295,840**	**P31,689,566,132**	**P119,935,212,288**	P37,746,762,279	P26,640,029,997	P91,127,538,465
Revenues/Income	**P6,691,477,648**	**P6,691,437,403**	**P35,513,976,163**	P6,940,514,788	P6,940,213,236	P48,604,206,642
Net income	**P6,676,842,936**	**P6,676,845,510**	**P22,304,408,739**	P6,914,489,874	P6,915,385,348	P23,124,470,501
Other comprehensive income (loss)	**79,530,625**	**79,530,625**	**265,102,084**	31,247,413	31,247,413	104,158,044
Total comprehensive income	**P6,756,373,561**	**P6,756,376,135**	**P22,569,510,823**	P6,945,737,287	P6,946,632,761	P23,228,628,545
Cash flows provided by (used in) operating activities	**P12,063,422**	**(P14,073,839)**	**P6,490,974,873**	(P112,502,361)	(P84,387,357)	P29,876,175,053
Cash flows provided by (used in) investing activities	**1,716,945,536**	**1,717,376,482**	**(17,531,533,576)**	3,600,197,547	3,599,853,783	(41,316,909,128)
Cash flows provided by (used in) financing activities	**(1,706,840,000)**	**(1,707,107,866)**	**2,314,463,375**	(3,595,000,000)	(3,595,530,289)	4,586,475,629
Effect of exchange rate changes on cash and cash equivalents	**60,353**	**84,372**	**13,528,583**	38,754	54,191	247,594,496
Net increase (decrease) in cash and cash equivalents	**P22,229,311**	**(P3,720,851)**	**P3,525,596,255**	(P107,266,060)	(P80,009,672)	(P6,606,663,950)

8. **Intangible Asset** - net

This account consists of:

	Note	**June 30, 2022**	December 31, 2021
Cost			
Concession fee	*2, 5*	**P160,296,289,265**	160,296,289,265
Cost of completed projects	*2*	**89,620,753,564**	84,932,962,401
Computer software	*3*	**487,983,237**	480,126,986
		250,405,026,066	245,709,378,652
Less accumulated amortization		**101,830,888,682**	97,443,193,241
		148,574,137,384	148,266,185,411
Contract assets		**163,705,777,586**	151,197,555,998
		312,279,914,970	299,463,741,409

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 P3.19 billion in June 30, 2022 and 2021.

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 P1.18 billion and P1.20 billion in June 30, 2022 and 2021, 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), Visitor’s Management System (VMS) and Customer Relation Management System (CRMS) amounting to P487.98 million and P480.13 million as at June 30, 2022 and December 31, 2021.

Amortization expense recognized in profit or loss amounted to P22.33 million and P19.19 million in June 30, 2022 and 2021, respectively.

The movements and balances of the accounts are as follows:

	Per Concession Right					
	Concession Fee	**Completed Projects/Others**	**Contract Assets**	**Total**	**Computer Software**	**Total**
Cost						
01-Jan-21	160,296,289,265	75,811,420,885	119,822,764,157	355,930,474,307	480,126,986	356,410,601,293
Additions/adjustments	-	9,121,541,516	31,374,791,841	40,496,333,357	-	40,496,333,357
31-Dec-21	160,296,289,265	84,932,962,401	151,197,555,998	396,426,807,664	480,126,986	396,906,934,650
Additions/adjustments	-	4,687,791,163	12,508,221,588	17,196,012,751	7,856,251	17,203,869,002
30-Jun-22	**160,296,289,265**	**89,620,753,564**	**163,705,777,586**	**413,622,820,415**	**487,983,237**	**414,110,803,652**
Accumulated Amortization						
01-Jan-21	,412,523,431	10,885,015,899	-	88,297,539,330	358,333,963	88,655,873,293
Additions/adjustments	776,375,674,295	2,373,100,514	-	8,748,774,809	38,545,139	8,787,319,948
31-Dec-21	83,788,197,726	13,258,116,413	-	97,046,314,139	396,879,102	97,443,193,241
Additions/adjustments	3,187,837,148	1,177,527,027	-	4,365,364,175	22,331,266	4,387,695,441
30-Jun-22	**86,976,034,874**	**14,435,643,440**	**-**	**101,411,678,314**	**419,210,368**	**101,830,888,682**
Net Carrying Amount						
31-Dec-21	76,508,091,539	71,674,845,988	151,197,555,998	299,380,493,525	83,247,884	299,463,741,409
30-Jun-22	**73,320,254,391**	**75,185,110,124**	**163,705,777,586**	**312,211,142,101**	**68,772,869**	**312,279,914,970**

9. Goodwill

Goodwill amounting to P10.47 billion as at June 30, 2022 and December 31, 2021 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 rates used 8.1% in 2021 and 2020, are based on Group's expectations of market developments and past historical performance. The discount rates applied to after tax cash flow projections ranged from 10.67% in 2020 and 2019. 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 three months and year ended June 30, 2022 and December 31, 2021.

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 is 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
Cost					
January 1, 2021	209,702,620	2,711,420,022	4,681,249,509	3,964,694,243	11,567,066,394
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	251,530,696	403,250,281	271,047,397	122,613,475	1,048,441,849
June 30, 2022	**472,817,341**	**3,319,951,300**	**5,365,130,916**	**4,225,717,109**	**13,383,616,666**
Accumulated Depreciation					
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	51,515,675	82,311,640	99,102,610	106,444,034	339,373,959
June 30, 2022	**138,779,286**	**2,204,737,995**	**3,272,187,889**	**2,928,258,185**	**8,543,963,355**
Net Carrying Amount					
December 31, 2021	134,023,034	794,274,664	1,920,998,240	1,281,289,483	4,130,585,421
June 30, 2022	**334,038,055**	**1,115,213,305**	**2,092,943,027**	**1,297,458,924**	**4,839,653,311**

Depreciation expense recognized in statements of comprehensive income amounted to P339.37 million and P304.08 million as of June 30, 2022 and 2021, respectively.

11. Cash and Cash Equivalents

This account consists of:

	Note	**June 30, 2022**	December 31,2021
Cash on hand		**P13,417,906**	P14,085,144
Cash in banks	*24*	**3,274,817,161**	16,897,369,880
Short-term placements	*24*	**9,044,082,524**	3,662,305,400
		P12,332,317,591	P20,573,760,424

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 0.35% - 1.75% and 0.325% - 1.50% for six months ended June 30, 2022 and 2021. Interest income earned amounted to P31.81 million and P97.09 million in June 30, 2022 and 2021, respectively.

12. Receivables

This account consists of:

A. Current Receivables

	Note	**June 30, 2022**	December 31, 2021
Power receivables	*24*	**P4,614,741,341**	P3,709,635,141
Due from customers	*24*	**4,581,140,558**	3,121,100,724
Accrued transmission revenue	*20*	**3,298,100,610**	2,461,168,557
Output VAT receivable		**1,641,803,887**	1,839,959,853
Due from officers and employees and other receivables	*24*	**206,735,651**	183,112,141
Restructured power receivables	*24*	**47,727,898**	111,573,641
Interest receivable	*24*	**5,085,832**	725,207
		P14,395,335,777	P11,427,275,264

B. Noncurrent Receivables

	Note	**June 30, 2022**	December 31, 2021
Restructured power receivables		**P1,430,731,170**	P1,430,731,170
Power receivables		**16,061,673,096**	5,490,630,862
Due from customers		**457,539,568**	455,327,402
	24	**17,949,943,834**	7,376,689,434
Less allowance for impairment losses		**1,974,463,659**	1,942,128,659
		P15,975,480,175	P5,434,560,775

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

	June 30, 2022	December 31, 2021
Balance at beginning of year	**P1,942,128,659**	P1,877,458,659
Provision for impairment losses on receivables during the year	**32,335,000**	64,670,000
Balance at end of year	**P1,974,463,659**	P1,942,128,659

Power receivables consist of amounts due from power customers for the transmission, connection and sub-transmission services rendered by the Group.

Noncurrent power receivables consist amount due from power customers relating to transmission and sub-transmission services which are to be collected beyond 1 year. These receivables pertain mainly to the increment iMAR of 2020 amounting to P1.23 billion. iMAR of 2021 amounting to P3.26 billion and Performance Incentive Scheme (PIS) amounting to P883.06 million.

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 P4.74 million and P.041 million as at June 30, 2022 and December 31, 2021, 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 transmission revenue 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

Prepaid Expenses and Other Current Assets

This account consists of:

	June 30, 2022	December 31, 2021
Advance payment to suppliers and contractors	**P13,961,679,568**	P14,520,194,602
Court and other deposits	**210,640,736**	6,207,020,662
Materials, supplies and spare parts – net	**3,614,513,169**	3,674,286,317
Input VAT and other prepaid taxes	**7,278,709,021**	591,102,988
Other deposits	**1,162,210,087**	460,722,167
Materials, supplies and spare parts in transit	**496,122,067**	274,366,926
Prepaid expenses	**466,664,137**	130,157,396
Other supplies	**33,494,333**	31,039,653
Guaranty deposit	**9,072,835**	9,072,835
Calamity loan fund	**338,178**	273,077
	P27,233,444,131	P25,898,195,623

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.

Materials, supplies and spare parts before write-down to net realizable value amounted to P4.17 billion and P4.29 billion as at June 30, 2022 and December 31, 2021, respectively, which resulted to an accumulated write-down amount of P346.27 million as at June 30, 2022 and December 31, 2021.

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

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

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.

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.

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.

Materials, supplies and spare parts and other supplies charged in the statements of comprehensive income amounted to P205.21 million and to P89.78 million in June 30, 2022 and 2021, respectively.

Other Noncurrent Assets
This account consists of:

	June 30, 2022	December 31,2021
Deferred input VAT	**P129,308,293**	P157,363,389
Project prepayment – noncurrent	**4,273,562,189**	4,273,562,190
Others	**20,000**	500,384
	P4,402,890,482	P4,431,425,963

Deferred Input VAT
This account 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
This 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 normal operating cycle 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	**June 30, 2022**	December 31, 2021
Loan Facilities (Net of Debt Issuance Costs)			
Fixed-rate peso corporate notes		**P37,922,788,033**	P42,006,783,907
Peso denominated term loan		**121,678,797,913**	109,229,286,708
	24	**159,601,585,945**	151,236,070,615
Less current portion		**14,844,398,826**	15,378,916,893
		P144,757,187,120	P135,857,153,722

Movements in debt issuance costs are as follows:

	June 30, 2022	December 31, 2021
Balance at beginning of year	**P873,929,385**	P819,677,980
Debt issuance costs during the year	**120,967,742**	266,472,521
Amortization during the year	**(111,483,072)**	(212,221,116)
Balance at end of year	**P883,414,055**	P873,929,385

Repayment Schedule
As at June 30, 2022, the annual maturities of loans payable are as follows:

Year	**Gross Amount**	**Debt Issuance Costs**	**Net**
2021	**P8,109,000,000**	**P102,127,045**	**P8,006,872,955**
2022	**22,154,000,000**	**168,688,002**	**21,985,311,998**
2023	**21,249,000,000**	**137,255,600**	**21,111,744,400**
2024	**18,477,000,000**	**119,893,925**	**18,357,106,075**
2025	**19,083,000,000**	**106,970,031**	**18,976,029,969**
More than 5 years	**71,413,000,000**	**248,479,452**	**71,164,520,548**
	P160,485,000,000	**P883,414,055**	**P159,601,585,945**

As at December 31, 2021, the annual maturities of loans payable are as follows:

Year	Gross Amount	Debt Issuance Costs	Net
2021	P15,575,000,000	P196,083,107	P15,378,916,893
2022	21,945,000,000	154,084,435	21,790,915,565
2023	21,090,000,000	123,876,786	20,966,123,214
2024	18,100,000,000	106,561,896	17,993,438,104
2025	18,170,000,000	92,905,134	18,077,094,866
More than 5 years	57,230,000,000	200,418,027	57,029,581,973
	P152,110,000,000	P873,929,385	P151,236,070,615

Details, Description and Terms of the Loans
Following are the details, description and terms of the loans:

Financing of Capital Expenditures

a. The Group entered into a P5.9 billion from P20.90 billion; P5.0 billion Peso Bilateral Unsecured Term Loan, and P5.0 billion from P10.0 billion Peso Bilateral Unsecured Term Loan which were drawn on January 10, 2022, February 24, 2022 and April 7, 2022, 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 P5.90 billion from P20.90 billion, Ten-year Peso Bilateral Unsecured Term Loan for P5.00 billion and Ten-year Peso Bilateral Unsecured Term Loan for P5.00 billion from P10.00 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 P5.00 billion from 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.

b. 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.

c. 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.

d. 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.

e. 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.

f. 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.

g. 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.

h. 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.

i. 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.

j. 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 12th 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 P2.78 billion and P4.55 billion as at June 30, 2022 and December 31, 2021, 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 P1.05 billion and to P1.49 billion for six months ended June 30, 2022 and 2021, 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 loan facilities:

a. 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 P370.43 million and P512.30 million in six months ended June 30, 2022 and 2021, respectively.

These loan agreements contain, among others, covenants relating to the Concession Agreement and maintenance of certain financial ratios, including requirements before payment of dividends. As at June 30, 2022 and December 31, 2021, the Group 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 December 31, 2021	**P151,236,070,615**
Changes from financing cash flows:	
Proceeds from loans	**15,900,000,000**
Payment of loans payable	**(7,525,000,000)**
Total liability-related changes	**(9,484,670)**
Others - debt issue costs related transactions	**8,365,515,330**
Balance at June 30, 2022	**P159,601,585,945**

	Loans Payable
Balance at January 1, 2021	P135,685,322,020
Changes from financing cash flows:	
Proceeds from loans	29,500,000,000
Payment of loans payable	(13,949,251,405)
Total liability-related changes	15,550,748,595
Balance at December 31, 2021	P151,236,070,615

15. Trade and Other Current Payables

This account consists of:

	Note	**June 30, 2022**	December 31, 2021
Accrued expenses	*24*	**P6,244,610,981**	P12,984,742,876
Accounts payable	*24*	**20,091,548,456**	21,248,508,228
Due to government agencies and others		**155,274,379**	6,493,191,111
Interest payable	*5, 14, 24*	**3,839,470,229**	3,391,248,258
Current portion of lease liability		**7,729,371,410**	47,395,192
Franchise tax payable to BIR	*26*	**270,500,561**	232,500,240
		P38,330,776,016	P44,397,585,905

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

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 and withholding taxes due to BIR. It also includes output VAT payable as a result of the implementation of TRAIN Law (see Notes 12, 13, 26 and 27).

16. Other Liabilities

This account consists of:

A. Other Current Liabilities

	Note	**June 30, 2022**	December 31, 2021
Retention on contract payments		**P9,857,546,285**	P8,787,760,509
Bidders/suppliers deposits		**147,772,510**	207,994,602
Advances from shareholders		**843,274,843**	368,544,628
Dividends payable		**4,682,977**	947,278,332
Advances from a subsidiary's minority interest		**-**	474,730,215
Advances for construction		**2,501,085,840**	2,501,085,840
	24	**P13,354,362,455**	P13,287,394,126

B. Other Noncurrent Liabilities

	Note	June 30, 2022	December 31, 2021
Advances for construction	*24*	**P2,346,532,895**	P2,681,130,807
Lease liability	*22*	**148,956,826**	5,649,394
Deferred tax liability		**29,357**	28,546
		P2,495,519,078	P2,686,808,747

Retention on contract payments pertains to the amounts withheld from payments to contractors which shall be returned to the latter upon the satisfactory completion of the project and/or service by the contractor and acceptance by the Group of the project and/or service concerned.

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

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.

17. Equity

Capital stock consists of:

			Years Ended December 31			
	June 30, 2022		2021		2020	
	Shares	**Amount**	Shares	Amount	Shares	Amount
Capital Stock						
Authorized - P1 par value per share	**5,300,000,000**	**P5,300,000,000**	5,300,000,000	P5,300,000,000	50,000,000	P50,000,000
Issued, fully paid and outstanding balance at beginning of year*	**5,265,866,000**	**P5,265,866,000**	4,149,866,000	P4,149,866,000	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 the period	**5,265,866,000**	**P5,265,866,000**	5,265,866,000	P5,265,866,000	4,149,866,000	P4,149,866,000
Additional Paid-in Capital						
Additional paid-in capital balance at beginning of year	**-**	**P88,928,018,694**	-	P77,907,600,000	-	P77,907,600,000
Additional paid-in capital from issued common shares during FOO	**-**	**-**	-	11,588,500,000	-	-
Shares issuance costs	**-**	**-**	-	(568,081,306)	-	-
Total paid-up capital	**-**	**P88,928,018,694**	-	P88,928,018,694	-	P77,907,600,000

As at June 30, 2022, December 31, 2021 and 2020, the Parent Company's share offer price is P12.16, P12.13, and P242.00, 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 SGDI, 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.

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 sued by NGCP to finance its capital expenditure requirements and related costs and expenses.

On April 13, 2022, upon signing of the Preferred Shares Subscription Contract with NGCP, the Company paid 25% of its total subscription of P12,238,163,000, amounting to P3,059,540,750.

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

Cash Dividends

On August 10, 2021, the BOD of the Parent Company approved the adoption of the policy to declare dividends equivalent 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 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 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.

In 2020, the BOD of OTHI approved the declaration of cash dividends amounting to P3.57 billion to all shareholders of record as of date of the meeting.

In 2020, the BOD of P21 approved the declaration of cash dividends amounting to P3.57 billion to all shareholders of record as of date of the meeting.

In 2020, 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 2019, the BOD of OTHI approved the declaration of cash dividends amounting to P4.54 billion to all shareholders of record as of date of the meeting.

In 2019, the BOD of P21 approved the declaration of cash dividends amounting to P4.48 billion to all shareholders of record as of date of the meeting.

For the year ended December 31, 2019, the BOD of NGCP approved the declaration of cash dividends amounting to P15.00 billion to all shareholders of record as of date of the meeting. Of the total amount declared, P9.00 billion pertains to the share of the Parent Company which is eliminated during consolidation

On March 23, 2022, the BOD of the Parent Company approved the declaration of P0.22 cash dividends per share for the 1st quarter of 2022 totaling to P1.158 billion. These cash dividends will be paid to shareholders of record as of April 6, 2022 on April 26, 2022.

On June 22, 2022, the BOD of the Parent Company approved the declaration of P0.26 cash dividends per share for the 2nd quarter of 2022 totaling to P1.369 billion. These cash dividends will be paid to shareholders of record as of July 6, 2022 on July 22, 2022.

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.

18. Earnings Per Share

Basic and diluted earnings per share at June 30, 2022 and December 31, 2021 and 2020 are computed as follows:

	Note	**June 30, 2022**	2021	2020
(a) Net income attributable to Equity holders of the Parent Company		**P8,978,978,611**	P9,124,966,265	P9,394,804,867
Issued common shares at January 1		**5,265,866,000**	4,149,866,000	4,149,866,000
Weighted average number of issued common shares to major shareholders during the year	*1*	**-**	26,041,667	-
Weighted average number of issued common shares during FOO	*1*	**-**	175,583,333	-
(b) Weighted average common shares outstanding		**5,265,866,000**	4,351,491,000	4,149,866,000
Basic/Diluted earnings per share (a/b)		**P1.71**	P2.10	P2.26

As at June 30, 2022 and December 31, 2021, 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 June 30, 2022 and December 31, 2021.

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 June 30, 2022, 2021 and 2020 consists of:

	June 30, 2022	June 30, 2021	June 30, 2020
Transmission services operating income	**P34,762,273,885**	**P23,412,476,392**	P23,409,466,629
Connection and residual sub - transmission income	**751,702,278**	**773,712,236**	773,645,378
Gain/discount on transmission service	**-**	-	
	P35,513,976,163	**P24,186,188,628**	P24,183,112,007

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.

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.

	Transmission Services Operating Income	Connection and Residual Sub-transmission Income	Total
Luzon	**P25,708,092,586**	**P408,381,910**	**P26,116,474,495**
Distribution utilities	P16,363,049,004	P370,724,045	P16,733,773,049
Generators	202,617,872	3,231,404	205,849,276
Directed Connected/Non-DUs	726,363,110	34,426,460	760,789,571
Accruals for iMAR and Under-recovery	8,416,062,599		8,416,062,599
Visayas	**P4,317,580,423**	**P123,553,758**	**P4,441,134,181**
Distribution utilities	P2,561,279,156	P117,285,462	P2,678,564,618
Generators	198,199,089	14,395	198,213,483
Directed Connected/Non-DUs	157,510,578	6,253,902	163,764,480
Accruals for iMAR and Under-recovery	1,400,591,600		1,400,591,600
Mindanao	**P4,736,600,877**	**P219,766,610**	**P4,956,367,487**
Distribution utilities	P3,065,498,545	P216,026,260	P3,281,524,806
Generators	45,090,133	-	45,090,133
Directed Connected/Non-DUs	42,993,064	3,740,350	46,733,414
Accruals for iMAR and Under-recovery	1,583,019,134		1,583,019,134
June 30, 2022 Total	**P34,762,273,885**	**P751,702,278**	**P35,513,976,163**

	Transmission Services Operating Income	Connection and Residual Sub-transmission Income	Total
Luzon	P16,213,553,517	P426,390,015	P16,639,943,532
Distribution utilities	15,493,987,004	385,766,433	15,879,753,437
Generators	113,154,628	3,231,404	116,386,032
Directly Connected/ Non-DUs	606,411,885	37,392,178	643,804,063
Visayas	2,613,913,488	123,771,435	2,737,684,923
Distribution utilities	2,429,904,110	117,285,462	2,547,189,572
Generators	34,578,200	14,395	34,592,595
Directly Connected/ Non-DUs	149,431,178	6,471,578	155,902,756
Mindanao	2,953,714,387	223,550,786	3,177,265,173
Distribution utilities	2,876,966,506	219,810,436	3,096,776,942
Generators	37,409,119	-	37,409,119
Directly Connected/ Non-DUs	39,338,762	3,740,350	43,079,112
Accruals for IMAR and Under recovery	1,631,295,000	-	1,631,295,000
June 30, 2021 Total	P23,412,476,392	P773,712,236	P24,186,188,628

	Transmission Services Operating Income	Connection and Residual Sub-transmission Income	Total
Luzon	P17,965,571,425	P426,709,609	P18,392,281,034
Distribution utilities	P15,012,746,622	P384,013,720	P15,396,760,342
Generators	100,144,508	2,752,211	102,896,719
Directly Connected/ Non-DUs	579,508,259	39,943,678	619,451,937
Accruals for IMAR and Under recovery	2,273,172,036	-	2,273,172,036
Visayas	P2,557,285,149	P123,633,719	P2,680,918,868
Distribution utilities	P2,382,224,640	P117,154,962	P2,499,379,602
Generators	57,077,822	14,379	57,092,201
Directly Connected/ Non-DUs	117,982,687	6,464,378	124,447,065
Mindanao	P2,886,610,055	P223,302,050	P3,109,912,105
Distribution utilities	P2,812,378,546	P219,565,862	P3,031,944,408
Generators	34,576,697	-	34,576,697
Directly Connected/ Non-DUs	39,654,812	3,736,188	43,391,000
June 30, 2020 Total	P23,409,466,629	P773,645,378	P24,183,112,007

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^{th} 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^{th} 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 ($iMAR_{2016}$) in the amount of P45,287.24 million.

In an Order dated January 21, 2016, the ERC provisionally approved an $iMAR_{2016}$ of P41,653.82 million. 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 Group to implement an adjusted $iMAR_{2016}$ of P43,789.05 million. Further, the ERC directed that the difference between the provisionally- approved $iMAR_{2016}$ of P41,653.82 million and the approved iMAR of P43,789.05 million, in the amount of P2,135.23 million, be collected by NGCP in 2017 (see Note 12).

Furthermore, the same Order provides that NGCP is authorized to continuously bill its transmission customers using an adjusted iMAR of P43,789.05 million for the succeeding regulatory years until the ERC's issuance of the Final Determination for the 4^{th} RP, thus the billing of an iMAR of P43,789.05 million 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 ($iMAR_{2020}$) 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 $iMAR_{2020}$ in the amount of P47,051.64 million 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 $iMAR_{2020}$ 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 $iMAR_{2020}$ 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 $iMAR_{2020}$ differential in the amount of P2,962.59 million.

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 $iMAR_{2020}$.

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^{rd} Regulatory Period Final Determination, as at October 2020;
e. Indicative 2020 Transmission Rate; and
f. Possible approach on the collection of unbilled portion of the ERC-approved $iMAR_{2020}$ 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 $iMAR_{2020}$ 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 $iMAR_{2020}$ 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 $iMAR_{2020}$ 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 iMAR2020 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.

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 29 April 2022, the ERC promulgated an Order dated 23 March 2022 resolving the $iMAR_{2020}$ Application and approving an $iMAR_{2020}$ of PhP51,471.13 million. Moreover, the Commission directed the implementation of the approved $iMAR_{2020}$ in the next billing cycle and required the submission of NGCP's proposed recovery scheme on the unbilled $iMAR_{2020}$ 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 02 June 2022 on NGCP proposed manner of recovery of the unbilled $IMAR_{2020}$ for the years 2020, 2021 and four (4) months of 2022, in the total amount of PhP17,624.85Mn starting September 2022 to June 2024[1].

To date, NGCP is yet to receive the ERC's Order on the said Compliance.

[1] *ERC ORDER dated 23 March 2022 for New iMAR 2020 of Php51.471Bil was received by NGCP on April 29, 2022, billing took effect May 2022 with incremental iMAR accrued while waiting for ERC approval on recovery. Net income as of June 30, 2022 will increase to Php22.67Bil."*

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	**June 30, 2022**	*a*	**240.09**	**1.83**	On demand,	Unsecured
	December 31, 2021	*a*	319.75	4.15	non-interest	
	December 31, 2020	*a*	282.06	7.92	bearing	
▪ SMDC	**June 30, 2022**	*b*	**2.89**	**1.71**	On demand,	Unsecured
	December 31, 2021	*b*	6.74	1.71	non-interest	
	December 31, 2020	*b*	3.37	2.56	bearing	
Shareholders	**June 30, 2022**	*c*	**-**	**368.54**	On demand,	Unsecured
	December 31, 2021	*c*	-	368.54	non-interest	
	December 31, 2020	*c*	250.05	618.75	bearing	
Key Management Personnel						
▪ Short-term benefits	**June 30, 2022**	*d*	**180.03**	**-**		
	December 31, 2021	*d*	301.42	-		
	December 31, 2020	*d*	302.15	-		
▪ Post-employment benefits	**June 30, 2022**	*d*	**5.39**	**-**		
	December 31, 2021	*d*	22.30	-		
	December 31, 2020	*d*	22.66	-		
	June 30, 2022		**P428.40**	**P372.08**		
	December 31, 2021		650.21	P374.40		
	December 31, 2020		860.29	P629.23		

a. The Group, through NGCP, has related party transactions with Prudential Guaranty Assurance, Inc. (PGAI) amounting to P240.09 million, P136.47 million and P129.52 million as of June 30, 2022, 2021 and 2020, respectively, representing insurance premiums. The outstanding insurance payable to PGAI amounting to P1.83 million and P7.92 million as of June 30, 2022 and December 31, 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.

b. The Group, through NGCP, also has existing lease agreement for parking space with SM Development Corporation (SMDC) amounting to P2.89 million, P3.85 million and P1.44 million in June 30, 2022, 2021 and 2020, respectively. The outstanding balance payable to SMDC amounting to P1.71 as of June 30, 2022 and December 31, 2021, are recorded under the "Trade and other current payables" account in the consolidated statements of financial position.

c. As at June 30, 2022 and December 31, 2021, Group, through P21, has outstanding payables to its stockholders amounting to P 368.70 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. As at December 31, 2020, the Parent Company has outstanding advances from its two major stockholders amounting to P250.05 million to be used by the Group as its source of fund in relation to the share swap transactions. These payables are non-interest bearing, payable on demand and will be settled in cash (see Note 16).

   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.

d. Total remunerations of key management personnel which represent short-term benefits as of June 30, 2022, 2021 and 2020 amounted to P180.03 million, P164.75 million and P169.92 million respectively. Total key management compensation relating to post-employment benefits in of June 30, 2022, December 31, 2021 and 2020 amounted to P5.39 million, P22.30 million and P22.66 million, respectively.

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. Previously, the lease was classified as an operating lease under PAS 17.

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

	June 30, 2022	December 31, 2021
Balance at January 1	**P55,124,278**	P113,018,250
Additions	**278,540,052**	30,741,238
Disposals	**(7,234,422)**	(128,239)
Depreciation for the year	**(75,027,663)**	(88,506,970)
Balance at December 31	**P251,402,245**	P55,124,278

The Depreciation relating to Finance Lease were recorded as part of "Depreciation Expense" in the statements of comprehensive income.

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

	June 30, 2022	December 31, 2021
Balance at beginning of period/year	**P52,751,589**	P115,780,230
Additions	**278,540,052**	30,329,511
Lease payments inclusive of interest payments	**(63,187,944)**	(98,330,035)
Interest expense	**4,990,188**	4,971,882
Balance at end of period/year	**P273,093,885**	P52,751,589

Expenses relating to short-term leases amounted to P49.60 million and P43.95 million as of June 30, 2022 and 2021, respectively, were recorded as part of "Rent" in the statements of comprehensive income.

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

June 30, 2022	**Future Minimum Lease Payments**	**Interest**	**Present Value of Minimum Lease Payments**
Less than one year	**P135,472,103**	**P11,335,043**	**P124,137,059**
Between one to five years	**152,961,185**	**4,004,359**	**148,956,826**
	P288,433,288	**P15,339,402**	**P273,093,885**

December 31, 2021	Future Minimum Lease Payments	Interest	Present Value of Minimum Lease Payments
Less than one year	P48,366,464	P1,264,270	P47,102,194
Between one to five years	5,857,757	208,363	5,649,394
	P54,224,221	P1,472,633	P52,751,588

23. Retirement Benefits

As at June 30, 2022 and December 31, 2021, the Group 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 22, 2022 for the year ended December 31, 2021.

<u>Salient Provisions of the Retirement Plan</u>
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.

<u>Funding Arrangements</u>
The Compensation Committee, in a meeting on February 26, 2014, approved the establishment of the NGCP 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	
	June 30, 2022	Dec 31,2021	**June 30, 2022**	Dec 31,2021	**June 30, 2022**	Dec 31,2021
Balance at beginning of year	**P342,046,909**	P337,626,920	**P2,456,734,271**	P2,364,725,409	**P2,114,687,362**	P2,027,098,489
Recognized in Profit or Loss and Statement of Financial Position						
Service costs	**-**	-	**108,357,241**	226,719,410	**108,357,241**	226,719,410
Interest expense	**-**	-	**62,646,724**	89,859,566	**62,646,724**	89,859,566
Interest income	**17,444,392**	12,829,823	**-**	-	**(17,444,392)**	(12,829,823)
	17,444,392	12,829,823	**171,003,965**	316,578,976	**153,559,573**	303,749,153
Recognized in Other Comprehensive Income						
Remeasurements: Actuarial losses (gains) arising from:						
Experience adjustments	**-**	-	**(45,049,344)**	169,454,115	**(45,049,344)**	169,454,115
Changes in financial assumptions	**-**	-	**(252,533,,844)**	(282,021,993)	**(252,533,,844)**	(282,021,993)
Return (loss) on plan asset excluding interest	**(32,481,103)**	(8,409,834)	**-**	-	**32,481,103**	8,409,834
	(32,481,103)	(8,409,834)	**(297,583,188)**	(112,567,878)	**(265,102,085)**	(104,158,044)
Others						
Contributions	**35,014,152**	112,002,236			**(35,014,152)**	(112,002,236)
Benefits paid	**(35,014,152)**	(112,002,236)	**(35,014,152)**	(112,002,236)		
	-	-	**(35,014,152)**	(112,002,236)	**(35,014,152**	(112,002,236)
Balance at end of year	**P327,010,198**	P342,046,909	**P2,295,140,896**	P2,456,734,271	**1,968,130,698**	P2,114,687,362

In 2017, the Group through its Trust Fund Agreement established the Group's Retirement Trust Fund, offsetting the retirement liability retrospectively.

Plan assets consist of the following:

	June 30, 2022	December 31, 2021
Deposits in banks	**0.01%**	0.00%
Debt securities	**74.11%**	72.48%
Equity Securities	**24.69%**	25.06%
Investment in Unit Investment Trust Fund	**0.47%**	1.69%
Other Assets	**0.73%**	0.77%
	100.00%	100.00%

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

	June 30, 2022	December 31, 2021
Current service cost	**P93,187,227**	P194,978,693
Interest cost	**53,876,183**	77,279,227
Interest Income of plan asset	**(15,002,177)**	(11,033,648)
	P132,061,233	P261,224,272

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

	June 30, 2022	December 31, 2021
Current service cost	**P15,170,014**	P31,740,717
Interest cost	**8,770,541**	12,580,339
Interest income of plan asset	**(2,442,215)**	(1,796,175)
	P21,498,340	P42,524,881

Actuarial Assumptions

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

	June 30, 2022	December 31, 2021
Discount rate	**6.50%**	5.10%
Future salary growth	**4.00%**	4.00%

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 June 30, 2022 and December 31, 2021 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, 2021	
	1% Increase	1% Decrease
Discount rate	(P181,246,082)	P211,640,040
Salary increase rate	197,738,082	(172,514,271)

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 2022, 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	June 30, 2022	December 31, 2021
Current assets:			
Cash and cash equivalents	*11*	**P12,332,317,591**	P20,573,760,424
Power receivables	*12*	**4,614,741,341**	3,709,635,141
Due from customers	*12*	**4,581,140,558**	3,121,100,724
Restructured power receivables	*12*	**47,727,898**	111,573,641
Interest receivable	*12*	**5,085,832**	725,207
Due from officers and employees and other receivables	*12*	**206,735,651**	183,112,141
Advance payment to suppliers and contractors	*13*	**13,961,679,568**	14,520,194,602
Total current financial assets		**35,749,428,439**	P42,220,101,880
Noncurrent assets:			
Restructured power receivables		**1,430,731,170**	P1,430,731,170
Power receivables		**16,061,673,096**	5,490,630,862
Due from customers		**457,539,568**	455,327,402
Total noncurrent financial assets	*12*	**17,949,943,834**	P7,376,689,434
Total financial assets		**P53,699,372,273**	P49,596,791,314

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

	June 30, 2022	December 31, 2021
Balance at beginning of period/year	**P1,877,458,659**	P1,877,458,659
Provision for impairment losses on receivables during the period/year	**64,670,000**	64,670,000
Balance at end of period/year	**P1,942,128,659**	P1,942,128,659

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 June 30, 2022 and December 31, 2021 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 fail 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		
June 30, 2022						
Cash and Cash Equivalents						
Cash in banks	**P3,288,235,067**	**P-**	**-**	**-**	**-**	**3,288,235,067**
Short-term placements	**9,044,082,524**	**-**	**-**	**-**	**-**	**9,044,082,524**
Receivables						
Power receivables	**4,548,240,835**	**26,451,914**	**8,514,442**	**15,978,754,150**	**114,453,096**	**20,676,414,437**
Due from customers	**3,480,885,174**	**203,973,225**	**207,976,181**	**668,981,655**	**476,863,891**	**5,038,680,126**
Due from officers and employees and other receivables	**206,735,651**	**-**	**-**	**-**	**-**	**206,735,651**
Restructured power receivables	**32,104,009**	**7,751,728**	**2,146,727**	**53,621,291**	**1,382,835,313**	**1,478,459,068**
Interest receivable	**4,741,225**	**-**	**33,249**	**-**	**311,358**	**5,085,832**
Prepaid Expenses and Other Current Assets						
Advance payment to suppliers and contractors	**13,961,679,568**	**-**	**-**	**-**	**-**	**13,961,679,568**
	P34,566,704,053	**P238,176,867**	**P218,670,599**	**P16,701,357,096**	**P1,974,463,658**	**P53,699,372,273**

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

	Neither Past Due nor Impaired	Past Due but not Impaired 1 to 30 Days	Past Due but not Impaired 31 to 60 Days	Past Due but not Impaired More than 60 Days	Past Due and Impaired	Total
December 31, 2021						
Cash and Cash Equivalents						
Cash in banks	P16,911,455,024	P -	P -	P -	P -	P16,911,455,024
Short-term placements	3,662,305,400	-	-	-	-	3,662,305,400
Receivables						
Power receivables	9,077,113,693	9,055,820	1,307,650	2,223,973	110,564,867	9,200,266,003
Due from customers	2,392,878,723	127,016,087	72,276,608	535,839,587	448,417,121	3,576,428,126
Due from officers and employees and other receivables	183,112,141	-	-	-	-	183,112,141
Restructured power receivables	114,563,103	6,206,676	-	38,699,719	1,382,835,313	1,542,304,811
Interest receivable	413,849	-	-	-	311,358	725,207
Prepaid Expenses and Other Current Assets						
Advance payment to suppliers and contractors	14,520,194,602	-	-	-	-	14,520,194,602
	P46,862,036,535	P142,278,583	P73,584,258	P576,763,279	P1,942,128,659	P49,596,791,314

The Group generally applies lifetime ECL to financial assets which substantially comprise power receivables and other short-term balances.

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, 2021 and December 31, 2020.

d) Past Due and Impaired Accounts

   Receivables with an aggregate nominal value of P1.94 billion and P1.88 billion as at December 31, 2021 and December 31, 2020, 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 June 30, 2022 and December 31, 2021. As at June 30, 2022, the Group recognized total impairment allowance amounting to P1.97 billion attributable to and covers substantially all noncurrent receivables. There is no material difference between the estimated ECL provision required for the period ended June 30, 2022 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 June 30, 2022 and December 31, 2021 are as follows:

		As at June 30, 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*	**37,905,001,076**	**37,905,001,076**	**37,905,001,076**	**-**
Concession fee payable	*5*	**-**	**-**	**-**	**-**
Loans payable (current and noncurrent)	*14*	**159,601,585,945**	**181,930,754,383**	**15,475,120,518**	**166,455,633,865**
Customers' and other deposits		**454,644,191**	**454,644,191**	**454,644,191**	
Other current liabilities	*16*	**13,354,362,455**	**13,354,362,455**	**13,354,362,455**	
Other noncurrent liabilities	*16*	**2,495,519,078**	**2,495,519,078**	**-**	**2,495,519,078**
		213,811,112,745	**236,140,281,183**	**67,189,128,240**	**168,951,152,943**

**excluding payables to government.*

		As at December 31, 2021			
	Note	Carrying Amount	Contractual Cash Flow	Less than 1 Year	More than 1 Year
Non-derivative financial liabilities:					
Trade and other current payables*	15	P37,904,394,794	P37,904,394,794	P37,904,394,794	P -
Concession fee payable	5				
Loans payable (current and noncurrent)	14	151,236,070,615	175,009,590,644	23,115,777,640	151,893,813,004
Customers' and other deposits		389,336,529	389,336,529	389,336,529	-
Other current liabilities	16	13,287,394,126	13,287,394,126	13,287,394,126	-
Other noncurrent liabilities	16	2,686,808,747	2,686,808,747	-	2,686,808,747
		205,504,004,811	229,277,524,840	74,696,903,089	154,580,621,750

**excluding payables to government.*

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, 2021 and 2020 pertains to its cash in banks, prepaid expenses and other current assets, trade and other liabilities denominated in US dollar, Euro, NZD and JPY.

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:

	June 30, 2022					
	U.S. Dollar	**Euro**	**AUD**	**NZD**	**JPY**	**Peso Equivalent**
Assets						
Cash and cash equivalents	**3,198,280**					**175,128,200**
Advance payment to suppliers and contractors	**157,145,319**	**171,725**				**8,614,702,112**
	160,343,599	**171,725**				**8,789,830,312**
Liabilities						
Accounts payable and accrued expenses*	**(364,624,802)**	**(16,751,305)**	**0.000**	**(3,261)**	**(9,235,613,940)**	**(24,645,751,318)**
Net foreign currency-denominated asset (liabilities)	**(204,281,203)**	**(16,579,580)**	**0.000**	**(3,261)**	**(9,235,613,940)**	**(15,855,921,006)**

	December 31, 2021					
	U.S. Dollar	Euro	AUD	NZD	JPY	Peso Equivalent
Assets						
Cash and cash equivalents	5,010,216	-	-	-	-	251,858,591
Advance payment to suppliers and contractors	176,489,393	216,368	-	-	-	8,884,250,001
	181,499,609	216,368	-	-	-	9,136,108,592
Liabilities						
Accounts payable and accrued expenses*	(604,647,179)	(8,560,945)	(175,429)	(3,261)	(3,842,321,845)	(32,570,518,212)
Net foreign currency-denominated asset (liabilities)	(423,147,569)	(8,344,577)	(175,429)	(3,261)	(3,842,321,845)	(23,434,409,620)

With the translation of these foreign currency denominated assets and liabilities, the Group reported net foreign exchange gain (loss) of (P392.46) million, P112.57 million, and P141.29 million as of June 30, 2022, 2021 and 2020 respectively.

The following are the closing exchange rates applied as at June 30, 2022 and December 31, 2021:

	USD	Euro	AUD	SGD	NZD
2022	**54.757**	**57.626**	**37.815**	**39.464**	**34.146**
2021	50.269	56.869	36.334		34.238

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:

	June 30, 2022		
	Strengthening/ Weakening of the Philippine Peso	**Effect on Profit**	**Effect on Equity**
U. S. Dollar	**+10%**	**1,118,582,585.62**	**(1,118,582,585.62)**
	-10%	**(1,118,582,585.62)**	**1,118,582,585.62**
JPY	**+10%**	**371,456,392.67**	**(371,456,392.67)**
	-10%	**(371,456,392.67)**	**371,456,392.67**
NZD	**+10%**	**11,135.38**	**(11,135.38)**
	-10%	**(11,135.385)**	**11,135.38**
EURO	**+10%**	**95,541,986.88**	**(95,541,986.88)**
	-10%	**(95,541,986.88)**	**95,541,986.88**
AUD	**+10%**	**0.00**	**(0.00)**
	-10%	**(0.00)**	**0.00**

	December 31, 2021		
	Strengthening/ Weakening of the Philippine Peso	Effect on Profit	Effect on Equity
U. S. Dollar	+10%	2,127,120,516.62	2,127,120,516.62
	-10%	(2,127,120,516.62)	(2,127,120,516.62)
JPY	+10%	168,216,850.37	(168,216,850.37)
	-10%	(168,216,850.37)	168,216,850.37
NZD	+10%	11,165.28	(11,165.28)
	-10%	(11,165.28)	11,165.28
EURO	+10%	47,455,019.76	(47,455,019.76)
	-10%	(47,455,019.76)	47,455,019.76
AUD	+10%	637,410.02	(637,410.02)
	-10%	(637,410.02)	637,410.02

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 NGCP has to meet Debt to Equity Ratio and Debt Service Coverage Ratio required by the concession agreement. As at June 30, 2022 and December 31, 2021 the NGCP is in compliance with these requirements.

<u>Fair Values</u>

The Group analyzes financial instruments carried at fair value by valuation method as at June 30, 2022 and December 31, 2021. 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 June 30, 2022 and December 31, 2021, the Group's derivative financial asset and liability were measured based on Level 2 classification.

As at June 30, 2022 and December 31, 2021, 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 Company, 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:

	DAMAGES		
PROJECT	PHP	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:

	RETENTION MONEY	
PROJECT	PHP	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 10 March 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. The Motion is still pending resolution by the Supreme Court.

There are several other cases for ejectment, damages, recovery of possession, and other cases of civil in nature filed by and against the Company and pending with the different courts and quasi-judicial bodies nationwide.

b. Tax Cases

In the case of National Grid Corporation of the Philippines 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 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 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 actually and directly used for electric power transmission. As in the Oliva case, the SC ordered to remand the cases to the CBAA to determine the actual and direct 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.

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 28 February 2022. NGCP subsequently filed a Motion for Reconsideration of said Resolution on 15 March 2022 praying among others that the properties involved be classified as exempt from the payment of RPT in the Assessment Roll.

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 P192.00 million filed with the Regional Trial Court (RTC) of Cebu, the parties already submitted their respective Memoranda and the case is now submitted for resolution.

In the case of NGCP vs. City Government of Kidapawan represented by Ms. Rosalina Aguirre, Provincial Treasurer of the Province of Cotabato, Civil Case No. 2011-46 RTC Branch 17 Kidapawan City, involving the amount of P7.13 million, the RTC already rendered a decision invalidating the franchise tax assessment issued by the Provincial Treasurer of Cotabato against NGCP.

With the ruling of the Supreme Court in Oliva 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. Consequently, as of 30 June 2022, NGCP obtained three thousand six hundred ninety-eight (3,698) tax exemptions covering lands, buildings and machineries located in various Cities, Municipalities, Provinces involving real property assessed value in the total amount of P10.8 billion.

As of 30 June 2022, NGCP has a total of ninety-four (94) RPT and franchise and business tax cases pending before the LBAA, CBAA, RTC, MTCC, the CTA and the Supreme Court, broken down as follows:

(i) Real Property Tax cases:

a. forty-nine (49) cases pertain to Petition filed contesting the Notices of Assessment issued by the Provincial or City Assessors involving properties with total assessed value of P13.1 billion; and
b. thirty-four (34) cases with Payment Under Protest contesting the Statements of Account or Billings issued by the Provincial or City Treasurers in the total amount of P40 million.

(ii) Franchise/ business tax cases:

a. three (3) cases pertain to Petition filed contesting the Franchise Taxes or Regulatory Fees issued by the Provincial or City Treasurers with total amount of P63.4 million; and
b. eight (8) cases with Payment Under Protest contesting the Statements of Account or Billings issued by the Provincial or City Treasurers in the total amount of P346.2 million.

c. Right of Way (ROW) Expropriation Cases

Pursuant to R.A. No. 9511, the Company 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 Php1.46 billion with RTC-Pasay City. The same was set for hearing on March 20, 2020, however, due to the Covid 19 pandemic, the court hearings were suspended.

On June 2, 2020, in a telephone follow up with RTC-Pasay City, we were informed that the court does not conduct hearings yet. We were likewise informed that our motion cannot be acted upon by the court because the records of the case were forwarded to the Supreme Court.

On June 30, 2020, NGCP filed with the Supreme Court, a Motion to Remand Records of the Case to the Regional Trial Court. The Motion was granted by the Supreme Court on July 27, 2020. Per inquiry with RTC-Pasay City, the records of the case are yet to be transmitted to the RTC.

On January 22, 2021, NGCP filed with the Supreme Court a Motion to Enforce Court's Order to remand the records of the case to RTC-Pasay City. On March 18, 2021, NGCP's Motion to Enforce Court Order was granted by the Supreme Court. The court records were transmitted to the Pasay RTC on July 13, 2021. The Omnibus Motion to Withdraw Complaint and Provisional Deposit was granted by the Pasay RTC 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 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.

As of June 30, 2022, 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 **2,499** with the total estimated amount involved of **P7.4 Billion** (based on provisional deposits).

d. 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.

e. 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.

f. 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 30th 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.

g. Labor Cases

There are seventeen (17) 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.

h. Other Cases

There are twenty (20) 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 4th and 5th 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 arbitration proceedings before the SIAC is ongoing.

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.

NGCP has also filed on November 13, 2018 a "Petition for the Approval of the Extension of the Period for the Listing of the Shares of National Grid Corporation of the Philippines" before the ERC, docketed as ERC Case No. 2018-014MC. The Petition seeks the extension of the period for compliance prescribed by Section 8 of RA No. 9511.

In its Decision dated March 3, 2020, the ERC denied NGCP's Petition and directed NGCP to commence immediately the process of public listing pursuant to RA No. 9511 and to fully comply with the same within six (6) months from receipt of the Decision. NGCP filed a Motion for Reconsideration of the ERC's March 3, 2020 Decision. In support of its Motion for Reconsideration, NGCP presented an expert witness to apprise the ERC of the impact of the Covid-19 pandemic on the timeline of its key IPO activities. On May 14, 2021, NGCP received the ERC Order dated March 10, 2021 denying NGCP's Motion for Reconsideration and directing NGCP to complete its compliance with Section 8 of RA No. 9511 within six (6) months from receipt of the Order. In its Compliance with Verified Motion dated 12 November 2021 filed with the ERC, NGCP informed the ERC that it has already fully complied with the March 10, 2021 Order when the Securities and Exchange Commission (SEC) and the Philippine Stock Exchange approved the follow on offering (FOO) of Synergy Grid and Development Philippines, Inc. (SGP), a company that indirectly owns 40.2% of NGCP.

Finally, in its Order dated 26 May 2022 (promulgated on 21 June 2022), the ERC resolved the Compliance with Verified Motion dated 12 November 2021 and Compliance/Submission dated 25 April 2022 filed by NGCP and declared that NGCP is COMPLIANT with Section 8 of Republic Act No. 9511.

26. Franchise Tax

As discussed in Note 1 to the financial statements, in consideration of the franchise and rights granted by R.A. 9511, the Company 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 Company'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 (see Note 25).

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 Company 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).

27. Final Determination and Others

"The Final Determination, Regulatory Reset for the NGCP for 2011 to 2015" (Final Determination) was approved by the ERC on November 22, 2010.

Pursuant to the 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 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 of January 1, 2006 to December 31, 2010 and for the Third Regulatory Period of January 2011 to December 31, 2015, with the issuance of the Final Determination on June 13, 2006 and November 22, 2010, respectively.

Regulated Entity
At the time the ERC issued its Final Determination for the Second Regulatory Period (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 the Company.

As discussed in Note 4 to the interim financial statements, the Company 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 Company 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 Company is responsible for ROW claims for projects that were initiated subsequent to the effectivity of the Act.

Hence, while the Company will incur the bulk of the costs of providing the Regulated Transmission Services over the Third Regulatory Period, 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 Company 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 $iMAR_{2016}$ of P41,653.82 million consistent with Module F of the 2006 Revised Open Access Transmission Service (OATS) Rules. As for the $iMAR_{2016}$ differential of P2,135.23 million, following the ERC Order dated December 19, 2016, this was collected by NGCP in 2017. The approved $iMAR_{2016}$ amounting to P43,789.05 million 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 $iMAR_{2020}$ in the amount of P47,051.64 million, an increase of P3,262.59 million from the $iMAR_{2016}$ of P43,789.05 million, effective April 2020 billing month. However, only P300 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 $iMAR_{2020}$. As a result, there was an unbilled $iMAR_{2020}$ differential in the amount of P2,962.59 million.

In October 2021, NGCP filed a Reiteratory Motion for Implementation of $iMAR_{2020}$ 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 $iMAR_{2020}$ 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.

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 29 April 2022, the ERC promulgated an Order dated 23 March 2022 resolving the $iMAR_{2020}$ Application and approving an $iMAR_{2020}$ of PhP51,471.13 million. Moreover, the Commission directed the implementation of the approved $iMAR_{2020}$ in the next billing cycle and required the submission of NGCP's proposed recovery scheme on the unbilled $iMAR_{2020}$ 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 02 June 2022 on NGCP proposed manner of recovery of the unbilled $IMAR_{2020}$ for the years 2020, 2021 and four (4) months of 2022, in the total amount of PhP17,624.85Mn starting September 2022 to June 2024[2].

To date, NGCP is yet to receive the ERC's Order on the said Compliance.

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 Third Regulatory Period considered only, among others, inclusions of TRANSCO of the supervision and permit fees relating to its Second Regulatory Period capital expenditures (CAPEX). However, instead of allowing its recovery as part of the OPEX for the Third Regulatory Period, ERC deemed it more appropriate to treat it as an adjustment to the Third Regulatory Period Revenue Requirement of NGCP thru the OPEX Efficiency Adjustment (OEA).

In Section 5.26 of Final Determination for the Third Regulatory Period, 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 Third Regulatory Period and is to be the subject of an ex-post prudency review during the Fourth Regulatory Period.

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 4th RP, the Company 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.

[2] *Electronically filed to the ERC on 2 June 2022*

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 4th RP, which should provide, among others the WACC approved by the ERC for the years 2016 to 2020, as stated in Note 17, the ERC approved an interim revenue of P43,789.05 million which was implemented in years 2016 to 2019, and subsequently provisionally approved a revenue of P47,051.64 million for the year 2020.

Other Taxes
As stated in the Third Regulatory Period 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 balance sheet amounted to P1.16 billion and P129.22 million respectively as at June 30, 2022.

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 company’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 4th RP, which should provide, among others the key indicators, performance targets and the ARR for years 2016 to 2020, the PIS has not been considered in the current iMAR collected by the Company.

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 Third Regulatory Period. 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 Company may be damaged or destroyed. In such cases, increase in costs incurred by the Company 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.

The ERC in its decisions dated December 10, 2012 under ERC Case Nos. 2010-112 RC, 2011-112 RC and 2010-065 RC, 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.

For the year 2016 to June 30, 2022, the following FME Claims were submitted to the Commission:

Year	FME Claim	Date Filed
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

Year	FME Claim	Date Filed
	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
2021	Typhoon Odette in Visayas and Mindanao	Case for filing

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 18 March 2022, NGCP received a copy of ERC Decision dated 24 November 2021 relative to the FME Claim Application for Sabotage Incidents and 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 01 April 2022.

On 05 April 2022, NGCP received a copy of the ERC Decision dated 24 November 2021 relative to the FME Claim Application for for Flooding in Mindanao, Typhoon Bebeng, Landslide in Mindanao and Typhoon Juaning (ERC Case No. 2012-070RC). On this, NGCP filed its Motion for Reconsideration dated 19 April 2022.

All other FME cases filed with the ERC in years 2012 to 2020 are still pending approval with the ERC.

Excluded Services or Connection Charge and Residual Sub-transmission Charges (CC/RSTC)

The Company is also engaged in the provision of other services and are earning revenues for these services over and above the MAR.

The Company'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 Company applied for the approval of CY 2011 and 2012 CC/RSTC in December 2011. Also, the Company commenced billing customers of the ERC-approved 2009 CC/RSTC starting December 2011 billing month.

The ERC, in the same issuance, likewise directed the Company 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 Third Regulatory Period 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 Company, 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, the Company 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, the Company submitted the 2011, 2012 and 2013 Re-computed CC/RSTC on September 4, 2014.

On October 8, 2014, the Company 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, the Company received a copy of the ERC Order dated June 2, 2015 directing the Company 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, the Company 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, the Company 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, the Company 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 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.

<u>Valuation of STAs</u>
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.

<u>Negative Pledge</u>
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 June 30, 2022, the following sub-transmissions assets were divested by TRANSCO to Qualified Distribution Utilities:

Year	Acquiring Distribution Utility	Assets Acquired
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 l Electric Cooperative, Inc. (ISELCO l)	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
2019	La Union Electric Company, Inc. (LUECO)	Bauang-Poro 69kV line

Year	Acquiring Distribution Utility	Assets Acquired
2020	Manila Electric Company (MERALCO)	**Batch 2** 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. **Batch 4** 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 & 1/2 bay with 3 CB 1 - Switchbay 115kV 1 & 1/2 bay with 3 CB Protection 2 - Switchbay 34.5kV with 1 CB Feeder 2 - Switchbay 34.5kV with 1 CB Feeder Protection

Based on the TRANSCO Report on Sub-Transmission Assets with ERC Approval as at December 31, 2018, the Deeds of Absolute Sale (DOAS) executed in the year 2018 pertain to those of Iligan Light and Power Company (ILPI) and Cotabato Electric Cooperative (COTELCO) which involved the amendment of the contract price amount (from an existing DOAS dated July 21, 2015) and the full payment (from an existing Deed of Transfer of Possession dated June 10, 2009).

Revenue from Related Business
The Company 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 Company 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 Company 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 Company has undertaken the reconciliation of its billing and payment of AS and AS VAT for years 2009 to 2018.

The Company 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 Company 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 Company 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 Company’s accounts. TMI shall also fund the AS-VAT refund after its conduct of reconciliation with the Company.

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 Company 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 22 July 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).

Impact of Typhoon Odette
With the onslaught of Typhoon Odette, various transmission lines in Visayas and Mindanao were affected.

On December 22, 2021, ERC directed the NGCP and the DUs in Visayas and Mindanao that were affected by the Typhoon Odette to prioritize and speed up their power restoration efforts while giving some consideration to their electricity consumers by providing some leniency in their electric bill payment.

A number of Visayas and Mindanao transmission customers have requested for payment extension/arrangement on their power bills, namely:

1. Antique Electric Cooperative, Inc (ANTECO)
2. Balamban Enerzone (BEZ)
3. Bohol Light Company, Inc.
4. Carmen Copper Corp. (CCC)
5. Cebu I Electric Cooperative, Inc. (CEBECO I)
6. Mactan Enerzone (MEZ)
7. Maguindanao Electric Cooperative, Inc. (MAGELCO)
8. MORE Electric and Power Corp. (MORE Power)
9. Negros Oriental I Electric Cooperative, Inc. (NORECO I)
10. Negros Oriental II Electric Cooperative, Inc. (NORECO II)
11. Northern Negros Electric Cooperative, Inc. (NONECO)
12. Northern Samar Electric Cooperative, Inc. (NORSAMELCO)
13. Surigao del Norte Electric Cooperative, Inc. (SURNECO)
14. Visayan Electric Company (VECO)

28. Significant Transactions Related to COVID-19

Impact of COVID-19

On March 8, 2020, under Proclamation 922, the Office of the President has declared a state of public health emergency and subsequently on March 16, 2020, under Proclamation 929, a state of calamity throughout the Philippines due to the spread of the COVID-19. To contain the COVID-19 spread in the country, national and local government imposed several measures including travel restrictions, home quarantine and temporary suspension or regulation of business operations, among others, limiting activities related to the provision of essential goods and services.

The COVID-19 pandemic triggered unprecedented quarantine restrictions locally and across the globe causing massive disruptions in business activities and economies.

The Company’s immediate focus was to maintain the reliability of the Transmission Grid and Power Delivery while complying with government advisories on overall safety of its people and customers.

Nevertheless, the pandemic's impact on people and transport mobility resulted to the following operational setback for the Company:

- Delay in the completion of construction of major projects including:

    - Mindanao Visayas Interconnection Project: Average delay of ten (10) months from the ETC of December 2021 to October 2022;
    - Hermosa-San Jose 500kV Backbone Transmission Project: Average delay of ten months (10) from the ETC of December 2021 to October 2022, and;
    - Cebu-Negros Panay (CNP) Interconnection Project: Average delay of six (6) months from the ETC of December 2022 to June 2023.

- Increase in Operating Expenditures (OPEX) due to the additional costs incurred in order to comply with government regulations on the prevention and control of COVID-19.

The following measures were undertaken to address the challenges posed by COVID-19:

- Conducted virtual Leadership Executive Session on August 25, 2020 attended by the company's C-level Executives, Vice Presidents, and Assistant Vice Presidents to recalibrate the corporate and departmental strategies in view of the COVID-19 pandemic;
- Re-aligned the projects' critical milestones for CY 2020;
- Patterned the distribution of inventories to the re-baselined targets of the major projects; and
- Provided Financial Blending Analysis across the concerned Functional Groups to determine the level of CAPEX under the following scenarios as part of Business Continuity:

    - Baseline (pre-pandemic scenario)
    - Realistic (spill-over scenario due to COVID-19 impact)
    - Optimistic (financial blending scenario in consideration of milestones that will not transpire in CY 2020)

These initiatives allowed the company to keep its financial position stable during the crisis, even enabling it to donate P1.00 billion to the Philippine Government to aid its continuing efforts to help people and communities.

The Company also created a Return-to-Work Task Force mandated to keep abreast of regulatory issuances with regard to COVID-19 and to propose appropriate company-wide policies and procedures to ensure compliance with these regulations.

Management is committed to continuously implement appropriate strategies and measures to pro-actively respond to overcome the challenges brought about by the COVID-19 pandemic.

C O V E R   S H E E T
for
AUDITED FINANCIAL STATEMENTS

SEC Registration Number

C	S	1	9	7	0	4	1	3	7	6

COMPANY NAME

SYNERGY GRID & DEVELOPMENT
PHILS., INC AND SUBSIDIARIES

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

Unit 1602, 16th Floor, Tycoon
Center Bldg. Condominium
Pearl Drive, Pasig City
Metro Manila

Form Type	Department requiring the report	Secondary License Type, If Applicable
AAFS		

COMPANY INFORMATION

Company's email Address	Company's Telephone Number/s	Mobile Number
synergy072015@yahoo.com	8584-39-30	

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	Email Address	Telephone Number/s	Mobile Number
Ma. Theresita Yulo	tesyulo@yahoo.com	8584-3930	

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