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**THE PHILIPPINE SECURITIES AND EXCHANGE COMMISSION HAS NOT APPROVED THESE SECURITIES OR DETERMINED IF THIS PROSPECTUS IS ACCURATE OR COMPLETE. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE AND SHOULD BE REPORTED IMMEDIATELY TO THE PHILIPPINE SECURITIES AND EXCHANGE COMMISSION.**

The offering information on this website is intended to be available only to Philippine and non-Philippine citizens residing in the Philippines or corporations or juridical entities organized and existing under Philippine law, and is not intended for distribution outside the Philippines and is not intended for distribution in the United States (as such term is defined in Regulation S under the U.S. Securities Act of 1933, as amended (the “**U.S. Securities Act**”). The information contained in this website may not be published or distributed, directly or indirectly, in the United States and this information does not constitute an offer of shares for sale in the United States. The shares described in this website or the documents or information available on this website have not been, and will not be, registered under U.S. Securities Act or with any securities regulatory authority of any state or other jurisdiction in the United States and may not be offered or sold, directly or indirectly, into the United States unless the shares are so registered or an exemption from the U.S. registration requirements is available. There will be no public offer of the shares mentioned herein in the United States.

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You are responsible for protecting against viruses and other destructive items. Your receipt of this electronic transmission is at your own risk and it is your responsibility to take precautions to ensure that it is free from viruses and other items of a destructive nature.



# SYNERGY

Grid & Development Phils., Inc.

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## SYNERGY GRID & DEVELOPMENT PHILS., INC.

*(incorporated in the Republic of the Philippines)*

Offer of 1,053,500,000 Common Shares  
with an Overallotment Option of up to 101,000,000 Common Shares

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Offer Price : ₱12.00 per Common Share

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to be listed and traded on the Main Board of  
The Philippine Stock Exchange, Inc.

Investing in the Offer Shares involves risks. See “Risk Factors” beginning on page 39.

*Joint Financial Advisors*

**Standard Chartered Bank**

**Philippine Commercial Capital, Inc.**

*Joint Global Coordinators and Joint Bookrunners*

**BofA Securities**

**UBS**

*Sole Domestic Coordinator*

**BDO Capital\***

*Joint Domestic Lead Underwriters and Joint Bookrunners*

**BDO Capital\***

**BPI Capital**

**PNB Capital**

*Selling Agents*

**Trading Participants of The Philippine Stock Exchange, Inc.**

**THE PHILIPPINE SECURITIES AND EXCHANGE COMMISSION HAS NOT APPROVED THESE SECURITIES OR DETERMINED IF THIS PROSPECTUS IS ACCURATE OR COMPLETE. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE AND SHOULD BE REPORTED IMMEDIATELY TO THE PHILIPPINE SECURITIES AND EXCHANGE COMMISSION.**

The date of this Prospectus is October 22, 2021

*\*Mr. Henry T. Sy, Jr., who is one of the Principal Shareholders of the Issuer, is also the Vice Chairman of SM Investments Corporation (“SMIC”). BDO Capital, the Sole Domestic Coordinator for the Offer, is a wholly owned subsidiary of BDO Unibank, Inc. which is an associate of SMIC.*

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

16th Floor  
Tycoon Center Bldg. Condominium  
Pearl Drive, Pasig City  
Metro Manila, Philippines  
Telephone Number: +63 2 8485 3930  
www.synergygrid.ph

This Prospectus (the “**Prospectus**”) relates to the offer and sale to the public of 1,053,500,000 common shares (the “**Firm Shares**”) with an Overallotment Option (as defined below) of up to 101,000,000 common shares (the “**Option Shares**” and together with the Firm Shares, the “**Offer Shares**”), each with a par value of ₱1.00 per common share, of Synergy Grid & Development Phils., Inc. (the “**Issuer**”, “**SGP**” or “**Synergy**”), a corporation organized and existing under Philippine law. The Firm Shares comprise unissued Common Shares to be offered and issued by the Issuer by way of primary offer (the “**Primary Offer**”). The Option Shares, if any, will be sold by each of Mr. Henry T. Sy, Jr. and Mr. Robert G. Coyiuto, Jr. (together, the “**Selling Shareholders**” or the “**Principal Shareholders**”). Mr. Henry T. Sy, Jr. will sell up to 53,000,000 existing Common Shares and Mr. Robert G. Coyiuto, Jr. will sell up to 48,000,000 existing Common Shares. The offer of the Offer Shares is referred to herein as the “**Offer**.”

SGP is a public company listed on The Philippine Stock Exchange, Inc. (the “**PSE**”) under the symbol “**SGP**”.

Synergy is a holding company and its sole operating asset, held through its direct and indirect shareholdings in the Intermediate Holding Companies (as defined below), is the National Grid Corporation of the Philippines (“**NGCP**”, the “**Company**”). As of the date of this Prospectus, SGP indirectly controls 60% of the outstanding capital stock of NGCP through its subsidiaries, OneTaipan Holdings, Inc. (“**OneTaipan**”) and Pacifica21 Holdings, Inc. (“**Pacifica21**”). In particular, OneTaipan indirectly holds an equity interest of 30% plus one share in NGCP through its wholly-owned company, Monte Oro Grid Resources Corporation (“**Monte Oro**”) and Pacifica21 indirectly holds an equity interest of 30% minus one share in NGCP through its wholly-owned company, Calaca High Power Corporation (“**Calaca**”) (each of OneTaipan, Pacifica21, Monte Oro and Calaca, are collectively referred to as the “**Intermediate Holding Companies**”, and together with NGCP, the “**Consolidated Subsidiaries**”). The effective equity interest of SGP in NGCP, through OneTaipan and Pacifica21, is 40.2%. “*Description of the Issuer—History and Corporate Structure of SGP*” on page 168.

NGCP is the sole and exclusive operator of the Philippines’ nationwide transmission network linking power generators and distribution utilities to deliver electricity to end-users across Luzon, Visayas and Mindanao. NGCP is a privately-owned corporation responsible for operating, maintaining and developing the power transmission grid, an interconnected system of towers, substations, lines and other high voltage equipment (the “**Grid**”), that transmits gigawatts of power from where it is produced to where it is consumed. As of June 30, 2021, NGCP’s power transmission network had a total length of over 20,732 CKM, with 41,696 MVA substation capacity and 20,000 transmission towers operating in 67 provinces. NGCP’s transmission superhighway of high-voltage transmission facilities range from 500kV, 230kV, 138kV, 115kV and 69kV lines interconnected through 145 substations.

On June 30, 2021, Synergy’s Board of Directors approved an amendment to Synergy’s Articles of Incorporation to increase its authorized capital stock from ₱5,050,000,000 divided into 5,050,000,000 common shares to ₱5,300,000,000 divided into 5,300,000,000 common shares, representing an increase of ₱250,000,000 comprising 250,000,000 common shares (the “**Capital Increase**”). On August 10, 2021, the stockholders of Synergy approved the Capital Increase and on August 25, 2021, the Philippine Securities and Exchange Commission (the “**Philippine SEC**”) approved the Capital Increase. As of the date of this Prospectus, the total issued and outstanding capital stock of Synergy is 4,212,366,000 common shares (the “**Common Shares**”). See “*Description of the Shares*” on page 266 of this Prospectus.

The Firm Shares will be issued out of Synergy’s unissued common shares, of which 900,134,000 common shares are part of Synergy’s unissued authorized capital stock while the remaining 153,366,000 Offer Shares will be issued from the Capital Increase. The Option Shares to be sold by Mr. Sy and Mr. Coyiuto comprise 62,500,000 common shares issued from the Capital Increase and 38,500,000 previously issued common shares. Upon approval by the PSE, all the Offer Shares will be listed on the PSE.

The Offer Shares shall be offered at a price of ₱12.00 per Common Share (the “**Offer Price**”). The determination of the Offer Price is described on page 82 of this Prospectus and was based on a book-building process and

discussion among the Issuer, Standard Chartered Bank and Philippine Commercial Capital, Inc. (“**PCCT**”) as joint financial advisors (the “**Joint Financial Advisors**”), Merrill Lynch (Singapore) Pte. Ltd. (“**BofA Securities**”) and UBS AG Singapore Branch (“**UBS**”) as the joint global coordinators and joint bookrunners (the “**Joint Global Coordinators and Joint Bookrunners**”), BDO Capital & Investment Corporation (“**BDO Capital**”) as the sole domestic coordinator (the “**Sole Domestic Coordinator**”), and BDO Capital, BPI Capital Corporation (“**BPI Capital**”) and PNB Capital and Investment Corporation (“**PNB Capital**”) as the joint domestic lead underwriters and joint bookrunners (the “**Joint Domestic Lead Underwriters and Joint Bookrunners**”).

Pursuant to the letter approval of the Philippine SEC dated October 20, 2021, each of the Selling Shareholders has appointed UBS AG Singapore Branch and its relevant affiliates to act as the stabilizing agent (the “**Stabilizing Agent**”). The Stabilizing Agent has an option exercisable in whole or in part for a period beginning on or after the initial listing of the Offer Shares on the PSE (the “**Listing Date**”) and, if exercised, ending on a date no later than 30 calendar days from and including the Listing Date (the “**Stabilization Period**”), to purchase the Option Shares at the Offer Price from the Selling Shareholders, on the same terms and conditions as the Firm Shares as set forth in this Prospectus (the “**Overallotment Option**”). In connection with the Offer, the Stabilizing Agent or any person acting on its behalf may effect stabilizing transactions with a view to supporting the market price of the Offer Shares at a level higher than that which might otherwise prevail for a limited period after the Listing Date. Any stabilization activities may begin on or after the Listing Date and, if begun, may be ended at any time, but must end no later than 30 calendar days from and including the Listing Date. Any stabilization activities shall be done in compliance with all applicable laws, rules and regulations. The total number of common shares which the Stabilizing Agent or any person acting in its behalf may purchase to undertake stabilization activities shall not exceed 9.6% of the aggregate number of the Firm Shares. If the Stabilizing Agent commences any stabilization activities (which would include thereafter disposing of or selling the common shares purchased), it may discontinue them at any time. However, the Stabilizing Agent or any person acting on behalf of the Stabilizing Agent has the sole discretion whether to undertake stabilization activities, and there is no assurance that the same will be undertaken. There is also no assurance that the price of the common shares will not decline significantly after any such stabilizing activities end. See “*Plan of Distribution*” on page 290 for more information.

The gross proceeds from the sale of the Firm Shares based on the final Offer Price of ₱12.00 will be approximately ₱12,642.0 million (U.S.\$260.4 million) and that the net proceeds from the sale of the Firm Shares, after deduction of fees and expenses expected to be incurred, will be approximately ₱12,224.5 million (U.S.\$251.8 million). Synergy intends to use the net proceeds from the Firm Shares to subscribe to non-voting preferred shares to be issued by NGCP, subject to applicable laws and regulations. NGCP will use the proceeds from the issuance of the non-voting preferred shares to fund capital expenditure requirements and related cost and expenses, subject to compliance with the legislative franchise of NGCP under Republic Act No. 9511 (the “**Franchise**”) and certain requirements under applicable law and agreements. See “*Use of Proceeds*” on page 70 for further details. Assuming full exercise of the Overallotment Option, the gross proceeds and estimated net proceeds (at the Offer Price of ₱12.00 and after deducting fees and expenses payable by the Selling Shareholders) to be raised by the Selling Shareholders from the sale of the Option Shares will be approximately ₱1,212.0 million (U.S.\$25.0 million) and ₱1,174.8 million (U.S.\$24.2 million), respectively. The Issuer will not receive any proceeds from the sale of the Option Shares by the Selling Shareholders.

The Joint Global Coordinators and Joint Bookrunners and the Joint Domestic Lead Underwriters and Joint Bookrunners will underwrite, on a firm commitment basis, the Firm Shares, to the extent of their respective underwriting commitments set out under the section “*Plan of Distribution*” in this Prospectus. The Joint Global Coordinators and Joint Bookrunners and the Joint Domestic Lead Underwriters and Joint Bookrunners will receive an underwriting fee equivalent to 1.00% of the gross proceeds from the sale of the Offer Shares. The underwriting fee does not include the commissions and fees to be paid to the duly licensed securities brokers who are trading participants of the PSE (“**PSE Trading Participants**”) as selling agents (“**Selling Agents**”). The PSE Trading Participants shall be entitled to a selling fee of 1.0% inclusive of VAT of the Trading Participants Offer Shares taken up and purchased by the relevant PSE Trading Participant. The fee to be paid to the Joint Financial Advisors is ₱115.0 million. See “*Plan of Distribution*” on page 290 for further information on the distribution of the Firm Shares and the underwriting commitment and see “*Use of Proceeds*” on page 70 for further details on the underwriting fee and PSE Trading Participants fee.

263,375,000 Firm Shares (or 25% of the Firm Shares) (the “**Trading Participants and Retail Offer Shares**”) are being offered in the Philippines through the PSE Trading Participants (the “**Trading Participants Offer**”) and to local small investors (“**LSIs**”) under the Local Small Investors Program (the “**Trading Participants and Retail Offer**”). The number of Offer Shares to be made available to the PSE Trading Participants and LSIs will be 210,700,000 Firm Shares (or about 20% of the Firm Shares) (the “**Trading Participants Offer Shares**”) and

52,675,000 Firm Shares (or 5% of the Firm Shares) (the “**Retail Offer Shares**”), respectively, subject to re-allocation as described below.

790,125,000, or about 75% of the Firm Shares (the “**Institutional Offer Shares**”), are (subject to re-allocation as described below) being offered for sale (i) outside the United States by the Joint Global Coordinators and Joint Bookrunners in offshore transactions in reliance on Regulation S of the U.S. Securities Act, and (ii) to certain qualified buyers and other investors in the Philippines, by the Joint Domestic Lead Underwriters and Joint Bookrunners (the “**Institutional Offer**”). The allocation of the Offer Shares between the Trading Participants and Retail Offer and the Institutional Offer is subject to adjustment as agreed between the Issuer, the Joint Financial Advisors, the Joint Global Coordinators and Joint Bookrunners and the Joint Domestic Lead Underwriters and Joint Bookrunners. In the event of an under-application in the Institutional Offer and a corresponding over-application in the Trading Participants and Retail Offer, Firm Shares in the Institutional Offer may be reallocated to the Trading Participants and Retail Offer. If there is an under-application in the Trading Participants and Retail Offer and if there is a corresponding over-application in the Institutional Offer, Firm Shares in the Trading Participants and Retail Offer may be reallocated to the Institutional Offer. The reallocation shall not apply in the event of over-application or under-application in both the Trading Participants and Retail Offer, on the one hand, and the Institutional Offer, on the other hand.

Upon completion of the Offer, a total of 5,265,866,000 common shares will be issued and outstanding, with the Firm Shares representing 20.01% of the Issuer’s issued and outstanding capital stock and, assuming full exercise of the Overallotment Option, the Offer Shares will represent 21.92% of the Issuer’s issued and outstanding capital stock. See “*Dilution*” for a summary of shareholdings before and after the completion of the Offer beginning on page 84. Upon completion of the Offer and assuming full exercise of the Overallotment Option, 22.12% (inclusive of 0.20% held by other public shareholders existing before this Offer) of Synergy’s issued and outstanding capital stock will be held by the public and 77.88% will be held by the Principal Shareholders. If the Overallotment Option is not exercised, 20.21% of Synergy’s issued and outstanding capital stock will be held by the public and 79.79% will be held by the Principal Shareholders.

All of the Offer Shares have identical rights and privileges to the Issuer’s issued and outstanding common shares. For a detailed discussion of the rights and features of the Common Shares, see “*Description of the Shares*” on page 266. The Board is authorized to declare dividends on the Common Shares. Dividends may be payable primarily in cash. However, the Board of Directors, in its discretion, may decide to declare dividends to be payable in property or shares, provided that any stock dividend declaration requires the approval of shareholders holding at least two-thirds of the Issuer’s total outstanding capital stock. The declaration of dividends is subject to the requirements of applicable laws and regulations, and circumstances which restrict the payment of dividends. For further discussion, see “*Dividends and Dividend Policy*” beginning on page 75 of this Prospectus.

The Issuer filed a Registration Statement with the Philippine SEC on August 13, 2021 in accordance with the provisions of the Securities Regulation Code of the Philippines (Republic Act No. 8799, the “**SRC**”) for the registration of the Offer Shares. On October 7, 2021, the Philippine SEC issued a Pre-Effective Letter. Upon compliance with the requirements of the Pre-Effective Letter, it is expected that the Philippine SEC will issue the Order of Registration of Securities and Certificate of Permit to Offer Securities for Sale on or about October 25, 2021.

The listing of the Offer Shares is subject to the approval of the PSE. Synergy submitted an application on August 13, 2021 to the PSE for the additional listing of the Offer Shares and the Common Shares issued from the Share Swap. See “*Related Party Transaction – Share Swap Transaction*” on page 263. The PSE issued its Notice of Approval in a letter dated October 14, 2021 approving the listing application, subject to compliance with certain conditions. The PSE’s approval of the listing is merely permissive and does not constitute a recommendation or endorsement of the Offer by the PSE or the Philippine SEC.

The PSE assumes no responsibility for the correctness of any of the statements made or opinions expressed in this Prospectus. Furthermore, the PSE makes no representation as to the completeness and expressly disclaims any liability whatsoever for any loss arising from, or in reliance upon, the whole or any part of the contents of this Prospectus.

Synergy has exercised diligence to the effect that, and confirms that, after having taken reasonable care to ensure that such is the case, as of the date of this Prospectus, the information contained in this Prospectus relating to Synergy and to the Company and operations is true and there is no material misstatement or omission of fact which would make any statement in this Prospectus misleading in any material respect and Synergy hereby accepts

responsibility under and in accordance with the SRC for the accuracy of the material information contained in this Prospectus relating to the Issuer, the Company and its operations.

The purchase of the Offer Shares in certain jurisdictions may be restricted by law. Foreign investors interested in purchasing the Offer Shares should inform themselves of the applicable legal requirements under the laws and regulations of the countries of their nationality, residence or domicile, and as to any relevant tax or foreign exchange control laws and regulations affecting them personally. Foreign investors, both corporate and individual, warrant that their purchase of the Offer Shares will not violate the laws of their jurisdiction and that they are allowed to acquire, purchase, and hold the Offer Shares.

The Offer Shares may be purchased and owned by any person or entity regardless of citizenship or nationality, subject to the nationality limits and ownership limits under Philippine law and cross-ownership restrictions under the Franchise. The Philippine Constitution and related statutes set forth restrictions on foreign ownership for companies engaged in certain activities. SGP is the indirect controlling shareholder of NGCP, which operates as a public utility and owns certain real estate, and as such, is subject to certain foreign ownership limitations under the Philippine Constitution and other laws. Accordingly, foreign equity in SGP shall not exceed 40.0% of SGP's (a) total number of outstanding shares of stock entitled to vote in the election of directors, and (b) the number of outstanding shares of stock, whether or not entitled to vote in the election of directors, after completion of the Offer and in compliance with applicable laws. As of the date of this Prospectus, only 0.04% of SGP's total outstanding capital stock is not held by Philippine Nationals. For further discussion, please refer to the section on "*Regulatory and Environmental Matters—Foreign Investments and Laws and Regulations Relating to Restrictions on Foreign Equity*" on page 242.

For as long as Synergy is listed on the PSE and owns or controls NGCP, ownership of shares in Synergy is subject to the following restrictions: (i) a Power Industry Player (as defined herein) or its stockholders, directors or officers, or any of their relatives within the fourth civil degree of consanguinity (except if such relative, whether by blood or marriage, has no employment, consultancy, fiduciary, contractual, commercial or other economic relationship or interest in such Power Industry Player) and their respective spouses, shall not be allowed to own more than 1% of the total outstanding shares of Synergy, provided, however, that a stockholder of a PSE-listed Power Industry Player owning not more than 1% of the total outstanding shares of the same Power Industry Player shall not be subject to the foregoing restriction; and (ii) a stockholder of Synergy shall not own more than 1% of the shares of stock or equity interest in any Power Industry Player. Any issuance or transfer of shares of Synergy in violation of the foregoing restrictions shall be void. No shares of stock issued or acquired in violation of these restrictions shall be recorded or allowed to remain recorded in the books of Synergy, or allowed to vote or be entitled to representation at any stockholders' meeting of Synergy, nor shall the holder of such shares be entitled to any of the rights of a stockholder of Synergy, including the right to dividends, during the existence of such violation. An investor purchasing the Offer Shares represents and warrants that it is compliant with the Cross-Ownership Rule under the Franchise and SGP's Articles of Incorporation. See "*Summary of the Offer—Restrictions on Ownership*" on page 25, "*Plan of Distribution—Selling Restrictions—Cross-Ownership Restrictions*" on page 295, and "*Regulatory and Environmental Matters—Franchise of NGCP*" on page 222.

Synergy reserves the right to withdraw the offer and sale of the Offer Shares at any time. In consultation with Synergy, the Joint Financial Advisors, the Joint Global Coordinators and Joint Bookrunners and the Joint Domestic Lead Underwriters and Joint Bookrunners reserve the right to reject any commitment to subscribe for the Offer Shares in whole or in part and to allot to any prospective purchaser less than the full amount of the Offer Shares sought by such purchaser. If the Offer is withdrawn or discontinued, SGP shall make the necessary disclosures to the Philippine SEC and the PSE.

## **Risks of Investing**

In making an investment decision, investors are advised to carefully consider all the information contained in this Prospectus, including risks associated with an investment in the Offer Shares.

These risks include:

- risks relating to the Issuer;
- risks relating to NGCP and its operations;
- risks relating to the Philippines;
- risks relating to the Offer and the Offer Shares; and
- risks relating to certain information in this Prospectus.

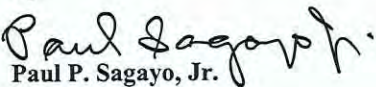
For a more detailed discussion on the risks in investing, see section on “*Risk Factors*” on page 39 of this Prospectus, which, while not intended to be an exhaustive enumeration of all risks, must be considered in connection with a purchase of the Offer Shares. The Offer Shares are offered solely on the basis of the information contained and the representations made in the Prospectus.

Unless otherwise indicated, all information in this Prospectus is as of the date of this Prospectus. Neither the delivery of this Prospectus nor any sale made hereunder shall, under any circumstance, create any implication that the information contained herein is correct as of any date subsequent to the date hereof or that there has been no change in the Group’s affairs since such date.

ALL REGISTRATION REQUIREMENTS HAVE BEEN MET AND ALL INFORMATION CONTAINED HEREIN ARE TRUE AND CURRENT.

SYNERGY GRID & DEVELOPMENT PHILS., INC.

By:


  
Paul P. Sagayo, Jr.  
President

REPUBLIC OF THE PHILIPPINES)  
CITY OF PASIG ) S.S

Before me, a notary public in and for the city named above, personally appeared Mr. Paul P. Sagayo, Jr., who was identified by me through competent evidence of identity to be the same person who presented the foregoing instrument and signed the instrument in my presence, and who took an oath before me as to such instrument.

Witness my hand and seal on this 22 October 2021 at Pasig City.

Doc. No. 420 ;  
Page No. 85 ;  
Book No. IV ;  
Series of 2021.

  
DEO PAOLO MARCIANO V. HERMO  
Notary Public for the Cities of Pasig, San Juan  
And Municipality of Pateros  
Commission until 31 December 2021  
2801 Discovery Center, 15 VDB Ave. Oruga Center, Pasig City  
APPT. No. 172 2663-2021 - Ren No. 73007  
PTR No. 0904: 01-13-2021; Pasig City  
BF No. 133444; 12-17-2026; RSN  
MCLE Compliance - N/A (Admitted to Bar on 2019)

## NOTICE TO INVESTORS

No representation or warranty, express or implied, is made by the Issuer, the Group, the Selling Shareholders, the Joint Financial Advisors, the Joint Global Coordinators and Joint Bookrunners and the Joint Domestic Lead Underwriters and Joint Bookrunners regarding the legality of an investment in the Offer Shares under any legal, investment or similar laws or regulations. No representation or warranty, express or implied, is made by the Joint Financial Advisors, the Joint Global Coordinators and Joint Bookrunners and the Joint Domestic Lead Underwriters and Joint Bookrunners as to the accuracy or completeness of the information herein and nothing contained in this Prospectus is, or shall be relied upon as, a promise or representation by the Issuer, the Group, the Selling Shareholders, the Joint Financial Advisors, the Joint Global Coordinators and Joint Bookrunners and the Joint Domestic Lead Underwriters and Joint Bookrunners. The contents of this Prospectus are not investment, legal or tax advice. Prospective investors should consult their own counsel, accountant and other advisors as to legal, tax, business, financial and related aspects of a purchase of the Offer Shares. In making any investment decision regarding the Offer Shares, prospective investors must rely on their own examination of the Group and the terms of the Offer, including the merits and risks involved. Any reproduction or distribution of this Prospectus, in whole or in part, and any disclosure of its contents or use of any information herein for any purpose other than considering an investment in the Offer Shares is prohibited. Each offeree of the Offer Shares, by accepting delivery of this Prospectus, agrees to the foregoing.

**THE OFFER SHARES ARE BEING OFFERED IN THE PHILIPPINES ON THE BASIS OF THIS PROSPECTUS ONLY. ANY DECISION TO PURCHASE THE OFFER SHARES IN THE PHILIPPINES MUST BE BASED ONLY ON THE INFORMATION CONTAINED HEREIN.**

No person has been authorized to give any information or to make any representations other than those contained in this Prospectus and, if given or made, such information or representations must not be relied upon as having been authorized by the Issuer, the Group, the Selling Shareholders, the Joint Financial Advisors, the Joint Global Coordinators and Joint Bookrunners and the Joint Domestic Lead Underwriters and Joint Bookrunners. This Prospectus does not constitute an offer to sell or the solicitation of an offer to purchase any securities other than the Offer Shares or an offer to sell or the solicitation of an offer to purchase such securities by any person in any circumstances in which such offer or solicitation is unlawful. Neither the delivery of this Prospectus nor any sale of the Offer Shares offered hereby shall, under any circumstances, create any implication that there has been no change in the Group's affairs since the date hereof or that the information contained herein is correct as of any time subsequent to the date hereof.

The information contained in this Prospectus relating to the Group and its operations have been supplied by SGP and NGCP, unless otherwise stated herein.

In accordance with the requirements of applicable laws and regulations in the Philippines for the sale of securities, such as the Offer Shares, in the Philippines, the Joint Domestic Lead Underwriters and Joint Bookrunners and SGP have exercised the required due diligence to the effect that, and the Joint Domestic Lead Underwriters and Joint Bookrunners and SGP confirm that to the best of their knowledge and belief after having taken reasonable care to ensure that such is the case, as of the date of this Prospectus, the information contained in this Prospectus relating to the Group and its operations is true and there is no material misstatement or omission of fact which would make any statement in this Prospectus misleading in any material respect. Each person contemplating an investment in the Offer Shares should make their own investigation and analysis of the creditworthiness of the Group and their own determination of the suitability of any such investment.

The distribution of this Prospectus and the offer and sale of the Offer Shares in certain jurisdictions may be restricted by law. The Issuer, the Company, the Joint Financial Advisors, the Joint Global Coordinators and Joint Bookrunners and the Joint Domestic Lead Underwriters and Joint Bookrunners require persons into whose possession this Prospectus comes to inform themselves about and to observe any such restrictions. This Prospectus does not constitute an offer of, or an invitation to purchase, any of the Offer Shares in any jurisdiction in which such offer or invitation would be unlawful. Each prospective purchaser of the Offer Shares must comply with all applicable laws and regulations in force in any jurisdiction in which it purchases, offers, sells or resells the Offer Shares or possesses and distributes this Prospectus and must obtain any consents, approvals or permissions required for the purchase, offer, sale or resale by it of the Offer Shares under the laws, rules and regulations in force in any jurisdiction to which it is subject or in which it makes such purchases, offers, sales or resales, and none of the Issuer, the Company, the Selling Shareholders, the Joint Financial Advisors, the Joint Global Coordinators and Joint Bookrunners and the Joint Domestic Lead Underwriters and Joint Bookrunners shall have any responsibility therefor.

In connection with the Offer, the Stabilizing Agent or any person acting on its behalf may over-allot Offer Shares or effect transactions with a view to supporting the market price of the Offer Shares at a level higher than that which might otherwise prevail for a limited period after the Listing Date. Any stabilization activities may begin on or after the Listing Date and, if begun, may be ended at any time, but must end no later than 30 calendar days from and including the Listing Date. Any stabilization activities shall be done in compliance with all applicable laws, rules and regulations. The total number of Common Shares which the Stabilizing Agent or any person acting in its behalf may purchase to undertake stabilization activities shall not exceed 9.6% of the aggregate number of the Firm Shares. If the Stabilizing Agent commences any stabilization activities (which would include thereafter disposing of or selling the Common Shares purchased), it may discontinue them at any time. However, the Stabilizing Agent or any person acting on behalf of the Stabilizing Agent has the sole discretion whether to undertake stabilization activities, and there is no assurance that the same will be undertaken. There is also no assurance that the price of the Common Shares will not decline significantly after any such stabilizing activities end.

The Offer Shares are offered subject to the receipt and acceptance of any order by the Issuer. The Issuer, in consultation with the Joint Financial Advisors, the Joint Global Coordinators and Joint Bookrunners and Joint Domestic Lead Underwriters and Joint Bookrunners, reserves the right to reject any commitment to subscribe for the Offer Shares in whole or in part and to allot to any prospective purchaser less than the full amount of the Offer Shares sought by such purchaser. If the Offer is withdrawn or discontinued, the Issuer shall subsequently notify the Philippine SEC and the PSE. The Issuer, the Group, the Joint Financial Advisors, the Joint Global Coordinators and Joint Bookrunners and the Joint Domestic Lead Underwriters and Joint Bookrunners and certain related entities may acquire for their own account a portion of the Offer Shares. It is expected that the Offer Shares will be delivered in book-entry form against payment thereof to the PDTC on or about November 10, 2021.

Each offeree of the Offer Shares, by accepting delivery of this Prospectus, agrees to the foregoing.

#### **BASIS FOR CERTAIN MARKET DATA**

Market data and certain industry data used throughout this Prospectus were obtained from market research, publicly available information, industry publications and on the Group's own analysis and knowledge of the markets for its services. Industry publications generally state that the information contained therein has been obtained from sources believed to be reliable, but that the accuracy and completeness of such information are not guaranteed. Similarly, industry forecasts and market research, while believed to be reliable, have not been independently verified, and none of the Issuer, the Group, the Selling Shareholders, the Joint Financial Advisors, the Joint Global Coordinators and Joint Bookrunners and the Joint Domestic Lead Underwriters and Joint Bookrunners makes any representation or warranty, express or implied, as to the accuracy or completeness of such information. Information in this Prospectus, particularly with respect to the power transmission and power industry in the Philippines, is from independent market research conducted by The Lantau Group (HK) Limited ("**Lantau**") commissioned by the Group and Lantau and should not be relied upon in making, or refraining from making, any investment decision.

The operating information used throughout this Prospectus has been calculated by the Company on the basis of certain assumptions. As a result, this operating information may not be comparable to similar operating information reported by other companies.

See the section entitled "*Industry Overview*" on page 123 of this Prospectus for information relating to the industry in which the Group operates.

#### **CONVENTIONS USED IN THIS PROSPECTUS**

In this Prospectus, unless otherwise specified or the context otherwise requires, all references to the "**Issuer**," "**SGP**," and "**Synergy**" are to Synergy Grid and Development Phils., Inc. on an unconsolidated basis and all references to "**NGCP**," and "**the Company**" are to National Grid Corporation of the Philippines. References to the "**Intermediate Holding Companies**" are to OneTaipan Holdings, Inc. ("**OneTaipan**"), Pacifica21 Holdings, Inc. ("**Pacifica21**"), Monte Oro Grid Resources Corporation ("**Monte Oro**") and Calaca High Power Corporation ("**Calaca**") and references to the "**Group**" are to SGP, the Intermediate Holding Companies and NGCP (the "**Consolidated Subsidiaries**").

All references to the "**BSP**" are references to *Bangko Sentral ng Pilipinas*, the central bank of the Philippines. All references to the "**Government**" are references to the government of the Republic of the Philippines. All references to "**United States**" or "**U.S.**" are to the United States of America. All references to "**Philippine Pesos**"

and “₱” are to the lawful currency of the Philippines, and all references to “U.S. dollars” or “U.S.\$” are to the lawful currency of the United States.

Certain terms used herein are defined in the “Glossary” contained elsewhere in this Prospectus. The items expressed in the Glossary may be defined otherwise by appropriate government agencies or regulations from time to time, or by conventional or industry usage.

### EXCHANGE RATE INFORMATION

This Prospectus contains translations of certain Peso amounts into U.S. dollar amounts at specified rates solely for the convenience of the reader. These translations should not be construed as representations that the Philippine Peso amounts represent such U.S. dollar amounts or could be, or could have been, converted into U.S. dollars at the rates indicated or at all. Unless otherwise indicated, all translations from Philippine Pesos to U.S. dollars have been made at a rate of U.S.\$1.00 = ₱48.544, being the rate for the conversion of U.S. dollars with Pesos quoted in the BSP Daily Reference Exchange Rate Bulletin on June 30, 2021. See “Exchange Rates” on page 81 of this Prospectus for further information regarding the rates of exchange between the Philippine Peso and the U.S. dollar.

### PRESENTATION OF FINANCIAL INFORMATION

This Prospectus includes the Group’s consolidated audited financial statements as of December 31, 2020 and 2019 and for the years ended December 31, 2020, 2019 and 2018 (the “**2020 audited financial statements**”), and as of and for the years ended December 31, 2018 and 2017 (the “**2018 audited financial statements**”) and the consolidated interim financial statements as of and for the six months ended June 30, 2021 and 2020 (the “**2021 interim financial statements**”). The Group’s financial statements are reported in Philippine Pesos and are prepared based on the Group’s accounting policies, which are in accordance with the Philippine Financial Reporting Standards (“**PFRS**”) issued by the Financial Reporting Standards Council of the Philippines.

The Share Swap transaction wherein the Issuer issued Common Shares in exchange for the shares of stock of OneTaipan and Pacifica21 resulted in a business combination involving OneTaipan and Pacifica21, including NGCP. SGP is considered to be a business combination of entities under common control as the two Principal Shareholders jointly control SGP, OneTaipan, Pacifica21 and NGCP before and after the Share Swap transaction. Accordingly, the consolidated financial information of the Group were restated as a result of the retrospective application of the accounting for business combination 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 the “Equity adjustment from common control transactions” account in the consolidated statements of changes in equity. The consolidated financial statements as of December 31, 2020 and 2019 and for the years ended December 31, 2020, 2019 and 2018, and as of and for the years ended December 31, 2018 and 2017 were restated as if the entities had been always combined for the periods that the entities were under common control. See note 6 of the 2020 audited financial statements elsewhere in this Prospectus.

The financial information included in this Prospectus has been derived from the audited combined financial statements and the interim financial statements. Unless otherwise indicated, financial information relating to the Group in this Prospectus is stated in accordance with PFRS.

Figures in this Prospectus have been subject to rounding adjustments. Accordingly, figures shown in the same item of information may vary, and figures which are totals may not be an arithmetic aggregate of their components.

SGP’s fiscal year begins on January 1 and ends on December 31 of each year. R.G. Manabat & Co. (“**RGM**”), a Philippine partnership and a member firm of KPMG International Limited, has audited the combined financial statements as of and for the years ended December 31, 2020, 2019, 2018 and 2017 and as of June 30, 2021 and for the six months ended June 30, 2021, in accordance with Philippine Standards on Auditing (“**PSA**”).

For more information, please refer to the audited financial statements and interim financial statements contained elsewhere in this Prospectus.

## **PRESENTATION OF NON-PFRS FINANCIAL MEASURES**

This Prospectus includes certain non-PFRS financial measures, including EBITDA. EBITDA is calculated as the sum of net income, finance costs, tax expense and depreciation and amortization.

These non-PFRS financial measures are supplemental measures of the Group's performance that are not required by, or presented in accordance with, and should not be considered as an alternative to net profit, revenues or any other measure of financial performance derived in accordance with PFRS or as an alternative to cash flows from operations or as a measure of liquidity. Non-PFRS financial measures have limitations as analytical tools, and you should not consider them in isolation from, or as a substitute for, your own analysis of the Group's financial condition or results of operations, as reported under PFRS. These non-PFRS financial measures are not standardized terms and other companies may calculate measures bearing the same titles differently, hence a direct comparison between companies using such terms may not be possible, which limits the usefulness of these non-PFRS financial measures.

## FORWARD-LOOKING STATEMENTS

This Prospectus contains forward-looking statements that are, by their nature, subject to significant risks and uncertainties. These forward-looking statements include, without limitation, statements relating to:

- known and unknown risks;
- uncertainties and other factors that may cause actual results, performance or achievements to be materially different from expected future results; and
- performance or achievements expressed or implied by forward-looking statements.

Such forward-looking statements are based on numerous assumptions regarding the Group's present and future business strategies and the environment in which the Group will operate in the future. Important factors that could cause some or all of the assumptions not to occur or cause actual results, performance or achievements to differ materially from those in the forward-looking statements include, among other things:

- risks relating to the Issuer and to NGCP's operations;
- the ability to successfully implement current and future business strategies;
- the ability to manage expansion and growth;
- the ability to obtain licenses, permits and other authorizations required;
- the ability to leverage on the Company's strengths;
- risks relating to the Philippines;
- the condition and changes in the Philippine, Asian or global economies and future political instability in the Philippines;
- changes in Government regulations, including laws on taxation, franchising and licensing in the Philippines;
- risks relating to the Offer and the Offer Shares;
- the other factors discussed in more detail under "*Risk Factors*"; and
- factors that are not known to the Group at this time.

Additional factors that could cause the Group's actual results, performance or achievements to differ materially from forward-looking statements include, but are not limited to, those disclosed under "*Risk Factors*" and elsewhere in this Prospectus. These forward-looking statements speak only as of the date of this Prospectus. In particular, in light of the ongoing COVID-19 pandemic and associated uncertainties in the global financial markets and their contagion effect on the real economy, any forward-looking statements and forward-looking financial information contained in this Prospectus must be considered with caution and reservation. The Issuer, the Group, the Joint Financial Advisors, the Joint Global Coordinators and Joint Bookrunners and the Joint Domestic Lead Underwriters and Joint Bookrunners expressly disclaim any obligation or undertaking to release, publicly or otherwise, any updates or revisions to any forward-looking statement contained herein to reflect any change in the Group's expectations with regard thereto or any change in events, conditions, assumptions or circumstances on which any statement is based.

This Prospectus includes statements regarding the Group's expectations and projections for future operating performance and business prospects. The words "believe," "plan," "expect," "anticipate," "estimate," "project," "intend," "seek," "target," "aim," "may," "might," "will," "would," "could," and similar words identify forward-looking statements. Statements that describe the Group's objectives, plans or goals are forward-looking statements. In addition, all statements other than statements of historical facts included in this Prospectus are forward-looking statements. In light of the risks and uncertainties associated with forward-looking statements, investors should be aware that the forward-looking events and circumstances discussed in this Prospectus might not occur. Actual results could differ materially from those contemplated in the relevant forward-looking statement and the Group gives no assurance that such forward-looking statements will prove to be correct or that such intentions will not change. This Prospectus discloses, under the section "*Risk Factors*" and elsewhere, important factors that could cause actual results to differ materially from the Group's expectations. All subsequent written and oral forward-looking statements attributable to the Group or persons acting on behalf of the Group are expressly qualified in their entirety by the above cautionary statements.

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## GLOSSARY

### GLOSSARY OF TECHNICAL TERMS

*This glossary of technical terms contains explanations of certain terms used in this Prospectus as they relate to the business of NGCP. As such, these terms and their meanings may not always correspond to the standard industry meaning or usage of these terms.*

AC .....	alternating current
ARR.....	Annual Revenue Requirement
AS or Ancillary Services.....	ancillary services are support services which are necessary to support the transmission capacity and energy that are essential in maintaining power quality and the reliability of the Grid
ASPA.....	ancillary services procurement agreement, a contract covering the provisions of ancillary services in accordance with the ASPP
ASPP .....	ancillary service procurement plan
CAPEX.....	capital expenditures
CEPNS .....	Certificate of Energy Projects of National Significance
CKM.....	Circuit Kilometer
CR .....	Contingency Reserve
Cross-Ownership Rule .....	under the Franchise, NGCP or any of its stockholders, directors or officers (or any of their relatives within the fourth civil degree of consanguinity and their respective spouses) are not allowed to hold any shares of stock in any Power Industry Player. In addition, a Power Industry Player or its stockholders, directors or officers (or any of their relatives within the fourth civil degree of consanguinity and their respective spouses), are not allowed to hold any shares of stock in NGCP. Moreover, as long as SGP is listed on the PSE and owns shares of, or controls, NGCP, ownership of shares in SGP is subject to the following restrictions under the terms of the Franchise of NGCP: (i) a Power Industry Player or its stockholders, directors or officers, or any of their relatives within the fourth civil degree of consanguinity (except if such relative, whether by blood or marriage, has no employment, consultancy, fiduciary, contractual, commercial or other economic relationship or interest in such Power Industry Player) and their respective spouses, shall not be allowed to own more than 1% of the total outstanding shares of SGP, provided, however, that a stockholder of a PSE-listed Power Industry Player owning not more than 1% of the total outstanding shares of the same Power Industry Player shall not be subject to the foregoing restriction; and (ii) a stockholder of SGP shall not own more than 1% of the shares of stock or equity interest in any Power Industry Player
DC .....	direct current

DOE.....	Department of Energy
ECC.....	Environmental Compliance Certificate
EICC.....	Energy Investment Coordinating Council
EISS.....	Environmental Impact Statement System
EMB.....	Environmental Management Bureau
EPC.....	a business model in which the contractor is responsible for the engineering, procurement and construction of a project
EPIRA.....	Republic Act No. 9136, the Electric Power Industry Reform Act
EPNS.....	energy projects of national significance
ERC.....	Energy Regulatory Commission
EVOSS.....	Energy Virtual One-Stop Shop
FLC.....	Frequency Limit Compliance refers to the percentage of time during the rating period that the system frequency is within the allowable frequency range of $60 \pm 0.3$ Hz
Franchise.....	Republic Act No. 9511, the legislative franchise of NGCP
FOT.....	Frequency of Tripping measures the number of line outages (transients and permanent or sustained) initiated by the tripping of transmission relays
Grid.....	the power transmission grid in the Philippines, an interconnected system of towers, substations, lines and other high voltage equipment, that transmits gigawatts of power from where it is produced to where it is consumed
GVA.....	gigavolt-ampere, a unit of power. 1 GVA = 1,000 MVA
GW.....	gigawatt, a unit of power. 1 GW = 1,000 MW
HVDC.....	High-Voltage Direct Current
IEMOP.....	Independent Electricity Market Operator of the Philippines
iMAR.....	interim MAR
installed capacity.....	the rated output of power generating units, usually denominated in MW
JCPC.....	Joint Congressional Power Commission
km.....	kilometer, a unit of length. 1 km = 1,000 m
kV.....	kilovolt, a unit of voltage. 1 kV = 1,000 volts

kWh.....	kilowatt-hour, a unit of energy. The standard unit of energy used in the electric power industry. One kilowatt hour is the amount of energy that would be produced by a power generator producing one thousand watts for one hour
Main Grid.....	Each of the Luzon Grid, the Visayas Grid and the Mindanao Grid, comprising the Grid
MAR.....	Maximum Allowable Revenue or Maximum Annual Revenue
Market Operator.....	IEMOP
MSP.....	Metering Service Provider
MVA.....	megavolt-ampere, a unit of power. The capacity of a transmission line is generally expressed in MVA
MVAR.....	MVA (Reactive)
MVIP.....	Mindanao – Visayas Interconnection Project
MW.....	megawatt, a unit of power. 1 MW = 1,000 kilowatt. The capacity of a power project is generally expressed in MW
NEA.....	National Electrification Administration
NPC.....	National Power Corporation
OATS.....	Open Access Transmission Service
OPEX.....	Operating expenditures
PBR.....	Performance-based regulation
PGC.....	Philippine Grid Code
PGC 2016 Edition.....	ERC Resolution No. 22, Series of 2016, “A Resolution Approving the Publication of the Approved Philippine Grid Code, 2016 Edition
PEMC.....	Philippine Electricity Market Corporation
PIS.....	Performance incentive scheme
Power Industry Player.....	any generation company, distribution utility, or its respective subsidiary or affiliate, or other entity engaged in generating and supplying electricity specified by the ERC, as defined under the terms of the Franchise
PSALM.....	Power Sector Assets & Liabilities Management Corporation
RAB.....	Regulatory Asset Base
RE.....	Renewable energy

RTWR .....	Rules for Setting Transmission Wheeling Rates
SA.....	System Availability, which measures the percentage of the system being considered on-line during the rating period
SCADA .....	Supervisory and data acquisition system
SISI.....	System Interruption Severity Index refers to the ratio of the unserved energy compared to the system peak where the unserved energy load is due to transformer and transmission line interruption
SPD .....	System peak demand
smart grid .....	generally used in the power industry to refer to a new type of power grid based on an integrated, high-speed two-way communication network, which is expected to lead to improvements in the reliability, compatibility, safety and efficiency of the power grids and cost reduction through the application of advanced sensor and measurement technologies, equipment technologies, control methods and decision-making support systems
System Operator .....	NGCP
TRANSCO .....	National Transmission Corporation
Transmission Provider.....	NGCP
TWRG.....	Transmission Wheeling Rates Guidelines, now known as the RTWR
TWh.....	terawatt-hour, a unit of energy. 1 TWh = 1 billion kWh
UHV .....	ultra-high voltage, 1,000 kV AC or $\pm$ 800 kV DC or above
VLC.....	Voltage Limit Compliance refers to the percentage of time that the voltage variance is within the limits of $\pm$ 5% of the nominal voltage (Luzon – 230 kV & 500 kV, Visayas – 230 kV/138 kV, Mindanao – 138 kV) monitored within 24 hours at the high side of the substation.
WESM.....	Wholesale Electricity Spot Market

## **GLOSSARY OF TERMS RELATING TO THE OFFER AND TO THE GROUP**

Application .....	an application to subscribe for Offer Shares pursuant to the Offer
BDO Capital .....	BDO Capital & Investment Corporation
BIR .....	Bureau of Internal Revenue of the Philippines
BofA Securities .....	Merrill Lynch (Singapore) Pte. Ltd.
Board of Directors or Board .....	SGP's board of directors
BPI Capital .....	BPI Capital Corporation
BSP .....	<i>Bangko Sentral ng Pilipinas</i> , the central bank of the Philippines
BSRD.....	BSP Registration Document
CAGR.....	compound annual growth rate
Calaca .....	Calaca High Power Corporation
Capital Increase .....	the amendments to SGP's Articles of Incorporation to increase its authorized capital stock from ₱5,050,000,000 divided into 5,050,000,000 Common Shares to ₱5,300,000,000 divided into 5,300,000,000 Common Shares, which was approved by the Philippine SEC on August 25, 2021
CAR.....	Certificate Authorizing Registration, issued by the BIR
CCCS.....	Central Clearing and Central Settlement
Common Shares or Shares.....	the common shares of SGP, par value of ₱1.00 per share
COVID-19 .....	refers to Coronavirus Disease 2019
DENR .....	Department of Environment and Natural Resources
DOLE .....	Department of Labor and Employment
DPA .....	Data Privacy Act of 2012
Domestic Receiving Agent.....	Stock Transfer Service, Inc.
DST.....	documentary stamp tax
ECQ .....	enhanced community quarantine, a COVID-19 measure imposed by the Government or local government units from time to time in certain areas that significantly reduce movement
EDGE.....	PSE Electronic Disclosure Generation Technology
Firm Shares.....	1,053,500,000 Firm Shares, consisting of 1,053,500,000 Primary Shares to be offered and issued by SGP
Governance Code .....	SEC Code of Corporate Governance for Publicly Listed Companies
I-ACGR .....	Integrated Annual Corporate Governance Report

Institutional Offer .....	offer (i) outside the United States by the Joint Global Coordinators and Joint Bookrunners in offshore transactions in reliance on Regulation S of the U.S. Securities Act, and (ii) to certain qualified buyers and other investors in the Philippines, by the Joint Domestic Lead Underwriters and Joint Bookrunners
Institutional Offer Shares.....	790,125,000 Offer Shares being offered pursuant to the Institutional Offer
Joint Domestic Lead Underwriters and Joint Bookrunners .....	BDO Capital, BPI Capital and PNB Capital
Joint Financial Advisors .....	Standard Chartered Bank and PCCI
Joint Global Coordinators and Joint Bookrunners .....	BofA Securities and UBS
Labor Code .....	Labor Code of the Philippines
LGC .....	Local Government Code
Lantau .....	The Lantau Group (HK) Limited
Lantau Report .....	The industry report prepared by Lantau in connection with this Offer, the short form of which is presented under the section “ <i>Industry Overview</i> ” and the full version of which is attached as Appendix 3 to this Prospectus
LSIs .....	Local small investors under the PSE’s Local Small Investors Program of the PSE
Metro Manila .....	the metropolitan area comprising the capital city Manila and the surrounding cities of Caloocan, Las Piñas, Navotas, Makati, Malabon, Mandaluyong, Marikina, Muntinlupa, Parañaque, Pasay, Pasig, Quezon, San Juan, Taguig and Valenzuela and the municipality of Pateros
Monte Oro .....	Monte Oro Grid Resources Corporation
MPO .....	Minimum Public Ownership
NGCP .....	National Grid Corporation of the Philippines
Offer .....	The offer and sale of the Offer Shares on, and subject to, the terms and conditions stated herein
Offer Price .....	₱12.00 per Common Share
Offer Shares.....	the Firm Shares and the Option Shares
OneTaipan .....	OneTaipan Holdings, Inc.
Option Shares .....	up to 101,000,000 Common Shares to be sold by the Selling Shareholders
Overallotment Option .....	an option granted by the Selling Shareholders to the Stabilizing Agent
Pacifica21 .....	Pacifica21 Holdings, Inc.

PCC .....	Philippine Competition Commission
PCCI .....	Philippine Commercial Capital, Inc.
PCD .....	Philippine Central Depository
PCNC.....	PDC Nominee Corporation
PDS.....	Philippine Dealing System
PDTC.....	The Philippine Depository and Trust Corporation
PFRS.....	Philippine Financial Reporting Standards
PhilHealth .....	Philippine Health Insurance Corporation
Philippine SEC .....	Securities and Exchange Commission of the Philippines
Philippine Tax Code .....	National Internal Revenue Code of 1997, as amended
Power Industry Player .....	means a generation company, distribution utility, or its respective subsidiary or affiliate, or other entity engaged in generating and supplying electricity specified by the ERC
PNB Capital.....	PNB Capital and Investment Corporation
Pricing Date .....	on or about October 22, 2021
Primary Offer.....	The offer and sale of the Primary Shares
Primary Shares.....	1,053,500,000 new Common Shares to be issued and offered by the Issuer pursuant to the Offer
Principal Shareholders .....	the principal shareholders of SGP, Mr. Henry T. Sy, Jr. and Mr. Robert G. Coyiuto, Jr.
PSA.....	Philippine Standards on Auditing
PSE .....	The Philippine Stock Exchange, Inc.
PSE Trading Participants .....	duly licensed securities brokers who are trading participants of the PSE
Regulation S .....	Regulation S under the U.S. Securities Act
RGM.....	R.G. Manabat & Co., a member firm of KPMG International Limited
RPT.....	related party transactions
RTGS.....	Real Time Gross Settlement
SCCP .....	Securities Clearing Corporation of the Philippines
Selling Agents .....	PSE Trading Participants
Selling Shareholders .....	Mr. Henry T. Sy, Jr. and Mr. Robert G. Coyiuto, Jr.
SGCC.....	State Grid Corporation of China
SGP.....	Synergy Grid & Development Phils., Inc.

Sole Domestic Coordinator.....	BDO Capital
SRC .....	The Securities Regulation Code of the Philippines (Republic Act No. 8799)
Stabilizing Agent .....	UBS AG Singapore Branch and its relevant affiliates
Stabilization Period.....	the period beginning on or after the Settlement Date and ending on a date no later than 30 calendar days from and including the Listing Date during which the Stabilizing Agent has an option exercisable in whole or in part for the conduct of stabilization activities
Standard Chartered .....	Standard Chartered Bank
Trading Participants and Retail Offer .....	the offer for sale of the Trading Participants and Retail Offer Shares to be made in the Philippines
Trading Participants and Retail Offer Shares .....	263,375,000 Firm Shares being offered pursuant to the Trading Participants and Retail Offer
Trading Participants and Retail Offer Shares Settlement Date .....	The date on which settlement of Offer Shares is to be made, expected to be on or about November 2, 2021
TRAIN .....	Tax Reform for Acceleration and Inclusion
UBS .....	UBS AG Singapore Branch
U.S. Securities Act.....	The United States Securities Act of 1933, as amended
VAT .....	value-added tax

## SUMMARY

*The following summary is qualified in its entirety by, and is subject to, the more detailed information presented in this Prospectus, including the Group's audited financial statements and the notes thereto, appearing elsewhere in this Prospectus.*

### OVERVIEW

#### The Issuer

Synergy Grid & Development Phils., Inc. (the “**Issuer**”, “**SGP**” or “**Synergy**”), a corporation organized and existing under Philippine law, is a holding company listed on the PSE under the symbol “SGP.” The sole operating asset of SGP is the National Grid Corporation of the Philippines (“**NGCP**”, the “**Company**”), which SGP holds through its direct and indirect shareholdings in the Intermediate Holding Companies (as defined below), and as of the date of this Prospectus, SGP indirectly controls 60% of the outstanding capital stock of NGCP through its subsidiaries, OneTaipan Holdings, Inc. (“**OneTaipan**”) and Pacifica21 Holdings, Inc. (“**Pacifica21**”). In particular, OneTaipan indirectly holds an equity interest of 30% plus one share in NGCP through its wholly-owned company, Monte Oro Grid Resources Corporation (“**Monte Oro**”) and Pacifica21 indirectly holds an equity interest of 30% minus one share in NGCP through its wholly-owned company, Calaca High Power Corporation (“**Calaca**”) (each of OneTaipan, Pacifica21, Monte Oro and Calaca, are collectively referred to as the “**Intermediate Holding Companies**”, and together with NGCP, the “**Consolidated Subsidiaries**”).

Synergy's vision is to be a strong and stable business enterprise that adds value to its shareholders and other stakeholders. Its mission is to build a prosperous enterprise through strategic investments in power, energy, utilities and other allied businesses. Pursuant to its Articles of Incorporation, SGP is authorized to engage in power, energy, utilities, infrastructure and allied businesses, including investing in such entities. As of the date of this Prospectus, none of SGP and the Intermediate Holding Companies are engaged in significant business operations and the sole operating asset is NGCP.

For the six months ended June 30, 2021 and for the years ended December 31, 2020, 2019 and 2018 the Group had consolidated revenues of ₱24,186.2 million (U.S.\$498.2 million), ₱48,606.6 million (U.S.\$1,001.3 million), ₱45,396.5 million and ₱45,402.0 million, respectively and net income of ₱12,499.1 million (U.S.\$257.5 million), ₱23,435.8 million (U.S.\$482.8 million), ₱20,020.2 million and ₱20,945.0 million, respectively, for the same periods.

The total net income attributable to equity holders of SGP was ₱5,012.1 million (U.S.\$103.2 million), ₱9,394.8 million (U.S.\$193.5 million), ₱8,042.1 million and ₱8,407.7 million for the six months ended June 30, 2021 and for the years ended December 31, 2020, 2019 and 2018, respectively.

#### Consolidated Subsidiaries of SGP

**OneTaipan Holdings, Inc.** OneTaipan is a domestic corporation registered with the Philippine SEC on February 23, 2010. It is a holding company whose 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 wherever situated and to the extent permitted by law. OneTaipan wholly owns Monte Oro Grid Resources Corporation.

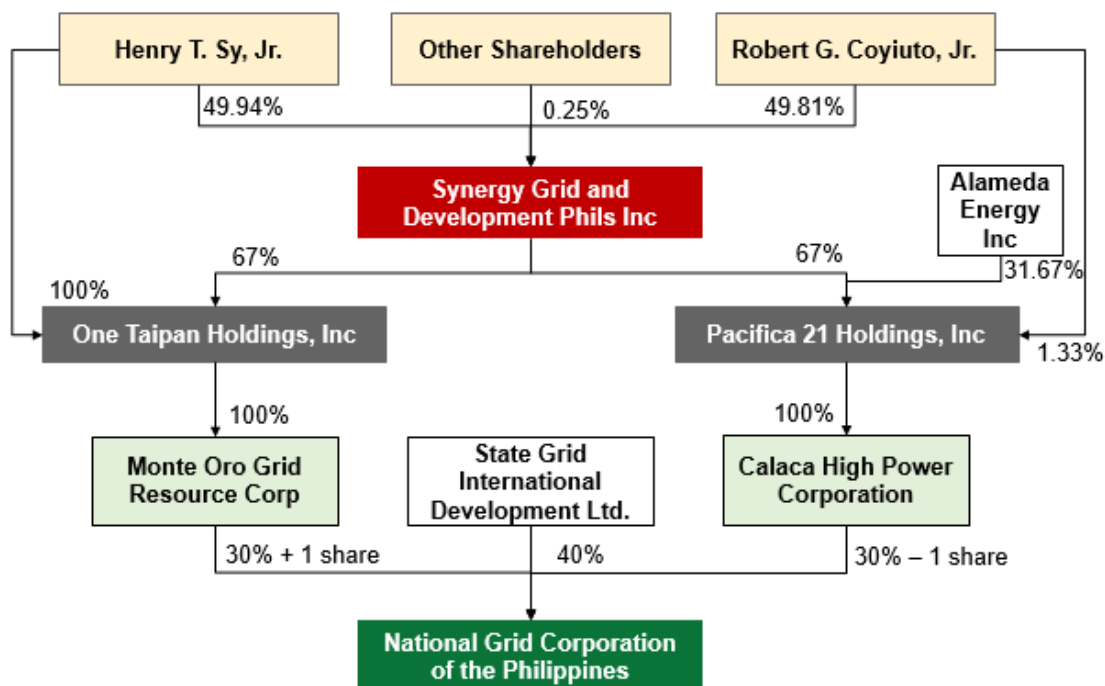
**Pacifica21 Holdings, Inc.** Pacifica21 is a domestic corporation registered with the Philippine SEC on May 12, 2006 and is a holding company whose purpose is to invest or acquire interest, purchase, own, or hold directly or indirectly shares of stock, debentures or securities in other companies including related services and business activities. Pacifica21 wholly owns Calaca High Power Corporation.

**Monte Oro Grid Resources Corporation.** Monte Oro is a domestic corporation incorporated in the Philippines on August 29, 2006 and is primarily engaged in investing and holding interests in shares of stock of companies engaged or proposing to engage in mining, energy, and infrastructure projects. Monte Oro's only active investment is in NGCP, which holds the concession to manage, expand, operate, maintain and rehabilitate the nationwide transmission and sub-transmission systems throughout the Philippines. Monte Oro owns 30% plus one share of the outstanding capital stock of NGCP.

**Calaca High Power Corporation.** Calaca is primarily engaged 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. Calaca’s only active investment is in NGCP, and it owns 30% minus one share of the outstanding capital stock of NGCP.

**NGCP.** See discussion below.

The diagram below illustrates the Group’s corporate structure as of the date of this Prospectus.

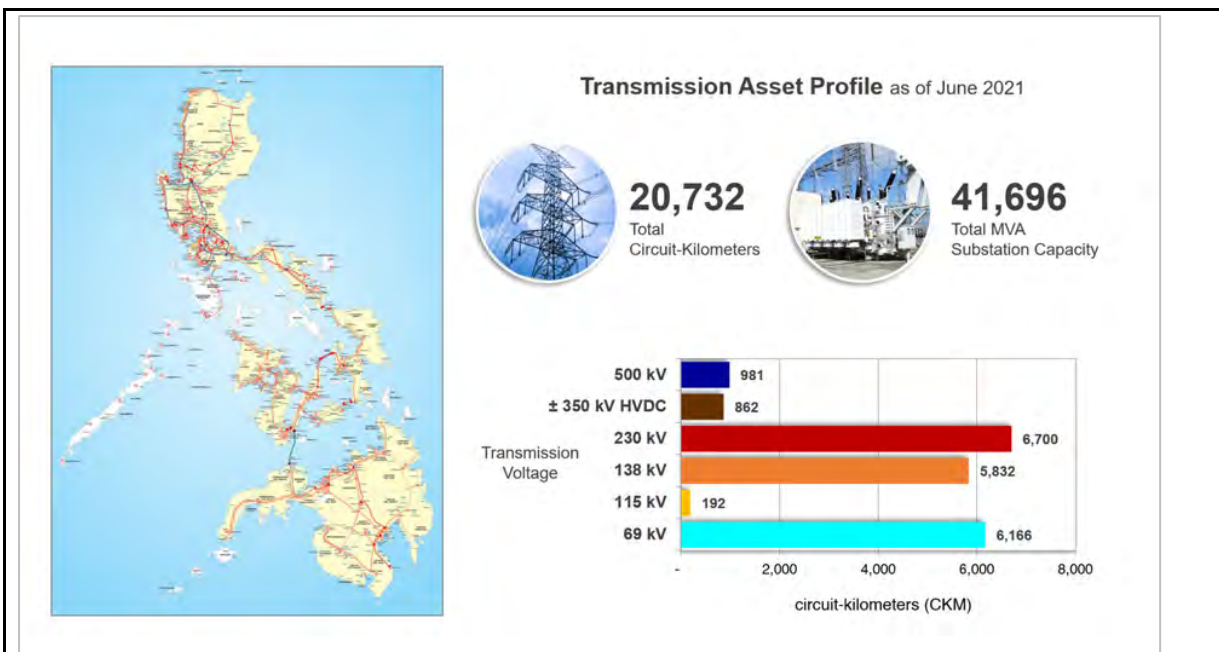


Pacifica21 wholly owns Calaca, which in turn owns 30% minus one share in NGCP. OneTaipan wholly owns Monte Oro, which holds 30% plus one share in NGCP.

**NGCP**

NGCP is the sole and exclusive operator of the Philippines’ nationwide transmission network linking power generators and distribution utilities to deliver electricity to end-users across Luzon, Visayas and Mindanao. NGCP is a privately-owned corporation responsible for operating, maintaining and developing the power transmission grid, an interconnected system of towers, substations, lines and other high voltage equipment (the “Grid”), that transmits gigawatts of power from where it is produced to where it is consumed.

As of June 30, 2021, NGCP’s power transmission network had a total length of over 20,732 CKM, with 41,696 MVA substation capacity and 20,000 transmission towers operating in 67 provinces. NGCP’s transmission superhighway of high-voltage transmission facilities range from 500kV, 230kV, 138kV, 115kV and 69kV lines interconnected through 145 substations. The Company is also undertaking six island interconnection projects to connect major sub-grids with one another as of the date of this Prospectus. These island interconnection projects with currently expected completion dates from March 2022 to February 2026 are as follows: (i) Mindanao-Visayas Interconnection Project; (ii) Panay-Guimaras 138kV Interconnection Project; (iii) Negros-Panay Interconnection Project, Line 2; (iv) Cebu-Bohol 230kV Interconnection Project; (v) Batangas-Mindoro Interconnection Project (in conjunction with the Palawan-Mindoro Interconnection Project (presently at feasibility study stage) – Feb 2028); and (vi) Quezon-Marinduque Interconnection Project. As of June 30, 2021, NGCP had a stable customer base of approximately 400 customers comprising Generator Customers (i.e., power generation companies which are connected to the NGCP system and authorized by the ERC to operate facilities used in the generation of electricity) and Load Customers (e.g., distribution utilities, electric cooperatives, directly-connected industries and other entities that receive supply and delivery of electricity for their own use or for distribution purposes). See “Description of NGCP and Business of NGCP—Customers” on page 205 for further details on the distinction between Generator Customers and Load Customers.



NGCP operates its business in a highly regulated environment and all aspects of its operations, from project implementation to transmission charges and revenue structure, are subject to regulation by the Government, acting primarily through the ERC. Republic Act No. 9511 (the “**Franchise**”) granted NGCP a 50-year franchise to operate and maintain the Grid and related facilities, authority to engage in ancillary business and any related business which maximizes the utilization of its assets and the right of eminent domain necessary to construct, expand, maintain and operate the Grid. NGCP intends to apply for the renewal of the franchise at the appropriate time.

## RECENT DEVELOPMENTS

On October 5, 2021, the principal shareholders of NGCP, namely Calaca, Monte Oro and State Grid International Development Limited (a wholly owned subsidiary of SGCC), submitted an undertaking to the SEC (i) to cause the approval by NGCP’s board of directors of the creation and issuance of the non-voting preferred shares and to submit proof of such approval to the SEC before the issuance of the Permit to Sell for the Offer, and (ii) to cause, immediately after the completion of the Offer, the approval by NGCP’s board of directors and shareholders of the detailed terms, including the issue price, of the non-voting preferred shares and the amendment for this purpose of NGCP’s articles of incorporation, subject to applicable laws and regulatory approvals. On October 18, 2021, NGCP’s board of directors passed a resolution approving the creation and issuance of the non-voting preferred shares, subject to applicable laws and regulatory approvals, and with the detailed terms, conditions and features of such shares to be considered and approved by the board of directors and shareholders of NGCP after the completion of the Offer.

Our results for the period ended September 30, 2021 are expected to be released on or about November 15, 2021.

## STRENGTHS AND STRATEGIES OF NGCP

### Strengths

The Group believes that the following are its key business strengths:

#### *Sole power transmission operator in the Philippines*

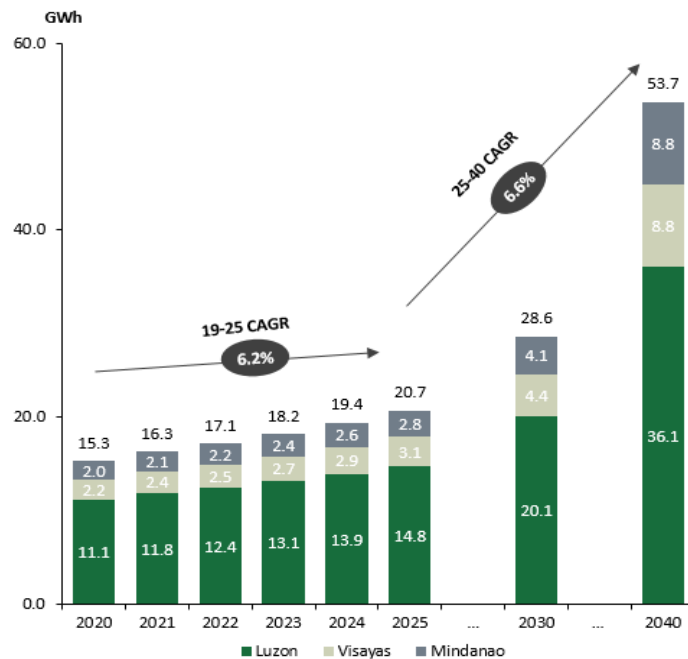
NGCP is a leading Southeast Asia transmission company and the exclusive operator of the transmission network in the Philippines. NGCP, through the listing of SGP in the PSE, is expected to be one of the very few listed transmission companies in the world, providing investors a rare opportunity to tap into the value of this industry. NGCP plays a critical role in the Philippine power sector, with an existing franchise across Luzon, Visayas and Mindanao, linking power generators and distribution utilities to deliver reliable electricity to end-users.

NGCP is the sole concessionaire of Government’s transmission assets. The 25-year concession gives NGCP the rights to operate all the transmission and sub-transmission assets in the Philippines. The concession is extendable by another 25 years, subject to certain conditions, under an extension option valid until 2059. As of June 30, 2021, NGCP operates 20,732 CKM of transmission line and 41,696 MWA of substation capacity. In addition, as of June 30, 2021, NGCP has a stable customer base of approximately 400 customers across distribution utilities, electric cooperatives, directly-connected industries and other entities.

**Operation in a sizable market with growth potential**

Energy consumption and economic development in the Philippines are highly interdependent. In the period from 2000 through to 2020, the annual average growth rate (“AAGR”) of total electricity consumption was 4.0%, while the economy as a whole grew at an AAGR of 5.5% according to the Lantau Report. The median real GDP is forecasted to grow by 6.6% in 2022, driven by strong consumer demand, a vibrant labor market, notable service sector performance, and robust remittances as pre-COVID according to the Lantau Report. The Group believes that this will continue driving the demand in electricity.

With the growth of real GDP, the Philippines’ demand for electricity is expected to increase as well. System peak demand in 2020 stood at 15.28 GW. The Group expects electricity demand to grow at an AAGR of 6.23% between 2021 and 2025, 6.73% for 2026 to 2030, and 6.49% for 2031 to 2040. The Group expects peak demand to almost double from a peak national demand of 15,282 MW in 2020, to reach 28,631 MW by 2030 and almost quadruple by 2040 reaching 53,569 MW. The chart below sets out peak demand forecast for through 2040.



Source: NGCP Transmission Development Plan 2021-2040, Consultation Draft

The Philippines ranks as the second most populous amongst countries in the Association of Southeast Asian Nations (“ASEAN”). It has an estimated population of 108.7 million in 2020. The Government estimates that the Philippines population is growing by approximately 1.5 million people every year. Population growth drives significant demand for electricity and transmission infrastructure, as discussed in the Lantau Report.

In 2019, the Philippine annual electricity usage per capita stood at 981 kWh and is expected to reach c. 1,220 kWh in 2025 according to the Lantau Report. When benchmarked against its peer countries, the Philippines’ 2019 per capita electricity usage is significantly lower than the average of members of the Organization for Economic Co-operation and Development (OECD) and other major ASEAN economies such as Singapore, Malaysia, Vietnam, and Thailand. According to the Lantau Report, the gap implies a potential improvement that serves as the driver for NGCP’s expansion as the Group believes there is strong future demand for transmission infrastructure to support the long-term electricity consumption growth.

***Strong cash flow visibility backed by stable regulated regime with performance rewards***

NGCP operates within an established regulatory framework and maintains appropriate engagement with the ERC. The ERC has implemented performance-based regulation (“**PBR**”), in which the regulator announces publicly ahead of time the fixed Maximum Annual Revenue (“**MAR**”). The MAR is estimated from the cost and capital expenditure program of NGCP, and is typically filed in October the previous year, while decisions will be made shortly after in December, allowing NGCP to have an advanced level of revenue visibility. See “—*Overview of Regulatory Framework—Rate Setting and the Regulatory Reset Process.*”

NGCP’s revenue for the electricity transmission business for a specific time period is determined by a revenue-setting process known as the regulatory reset process (“**Regulatory Reset Process**”). During the Regulatory Reset Process, the Transmission Provider (i.e., NGCP) sets out its proposed capital expenditure plans and revenues for the relevant periods for ERC’s approval. The Rules for Setting Transmission Wheeling Rates (“**RTWR**”) provides NGCP with the mechanism of MAR adjustment in the next regulatory year, if there is any revenue under-recovery in the current regulatory year, and thus removing volume risk. This provides the Group with the ability to forecast revenue and cash flow ahead of time.

Transmission charges are also linked to a performance-based regulatory framework that offers rewards for meeting certain regulatory standards. This performance based regulatory framework allows the Group to benefit from certainty of stable cash flow in the long term and also the rewards in the form of some uplift for outperformance as measured against clearly defined performance standards set by the ERC.

In addition, NGCP is a private run corporate and being a regulated entity, operates under defined procedures and protocols, which help shield it from potential political risks. NGCP also conducts regular dialogues with the regulators and receive guidance from them, enabling the Group to have a clearer view of its future cash flow projections.

Leveraging on this unique position, the Group believes that NGCP has achieved a superior financial profile historically, with return-on-assets at 7.0% and EBITDA margin at 81.6% in 2020.

NGCP’s 2018 – 2020 financial performance is shown in the table below:

	<b>As of December 31,</b>		
	<b>2018</b>	<b>2019</b>	<b>2020</b>
Return-on-assets <sup>(1)</sup>	8.0%	6.8%	7.0%
EBITDA margin <sup>(2)</sup>	79.7%	79.6%	81.6%

Notes: (1) Return-on-assets is calculated as Net Income / Total Assets.

(2) EBITDA as adjusted for non-recurring COVID-19 donation expense.

***Strong performance backed by top technical and operational capabilities***

The network performance of NGCP as measured by availability and reliability indices, such as frequency of tripping and system availability, among others, has significantly improved and stabilized over time across all Luzon, Visayas and Mindanao, compared with the period under the management of TRANSCO.

Among the key indicators in which NGCP continues to outperform is the Frequency of Tripping (“**FOT**”) which measures the number of times high-voltage transmission lines tripped or experienced forced outages for every 100 CKM. NGCP’s 2020 performance shows a significant decrease in tripping incidents across all the three Main Grids. In Luzon, the number has gone down from 3.985 in 2008 (before NGCP took over the operations of Grid) to 0.932 in 2020, marking a 76.6% decrease in tripping incidents. Visayas also recorded a decrease of 92.6% from 4.542 to 0.335. Similarly, Mindanao’s numbers went from 7.951 to 0.504, a decrease of 93.6%. These improvements are attributable to NGCP’s upgrading projects such as wood pole replacement, substation additions, capacitor bank projects, and new transmission lines, effectively reinforcing the stability and reliability of the Grid in any condition.

NGCP also improved the capability of the Grid to mitigate the impact of power interruptions to overall Grid operations, which are measured by the System Availability (“**SA**”) indicator and System Interruption Severity Index (“**SISI**”). In 2020, Luzon’s SA scored 99.208%, Visayas at 99.764%, and Mindanao at 99.736%. For the SISI, Luzon only recorded 0.869 system minutes of interruptions in 2020 compared to 9.537 in 2008 (when the

Grid was still under the control of TRANSCO); 10.010 from 83.559 in Visayas; and 9.124 from 10.434 in Mindanao.

All three Main Grids have significantly reduced, if not completely eliminated, violations on frequency and voltage limits. The Luzon Grid in particular reported 100%, or no violations in frequency limit compliance (FLC) since 2010. FLC refers to the percentage of time where the system frequency is within the allowable range of  $60 \pm 0.3$  Hertz, which is the optimal operating frequency of the transmission system.

In order to ensure high rates of availability for its transmission systems, NGCP operates and monitors its infrastructure using modern techniques and technologies such as SCADA EMS (with back-up system) which enables monitoring of real-time condition of the power system. Other key technologies used in the operation of the Grid include the optical telecommunication network, Protection Management Systems, Network Management System, and Integrated Energy Model Simulation Software.

In addition, NGCP has collaborated closely with its technical partner, State Grid Corporation of China (SGCC) on engineering design and construction, which enables NGCP to enhance its own design, construction and workmanship standards that are now being used in the implementation of projects. Further, NGCP conducts site visits and technical exchange with SGCC on various subjects such as smart grid, power system protection, and grid operations which allow NGCP to keep in pace on latest technology applicable to Philippine grid setting and improve the grid operation. NGCP also collaborated in research and technical studies for HVDC technologies and other high-voltage equipment, LIDAR applications, and renewable energy integration to the Grid.

#### ***Established track record of project development and execution***

NGCP has extensive experience and expertise in implementing new transmission projects and expanding the Philippine's transmission systems. From 2009 to 2020, NGCP has added 3,375 CKM of transmission lines and 21,209 MVA of sub-stations capacity across the Philippines, representing a significant CAGR of 12.0% and 21.3% respectively for the period that it became operator of the Grid. The Group believes that one example of NGCP's outstanding execution capability is the Mindanao-Visayas Interconnection Project, where NGCP targets to establish two cable terminal stations, two converter stations and 712 CKM of transmission lines in total, aimed at building ONE Grid Philippines. This project represents the first one issued with the Certificate of Energy Projects of National Significance ("CEPNS") by the DOE. The magnitude of this project further testifies to NGCP's exceptional capabilities in developing and executing significant projects.

Other significant milestones of NGCP's project development and execution include the energization of the ₱382 million project to improve Luzon power quality, which was completed in the last quarter of 2020, and the construction of 100km of overhead transmission lines connecting the Butuan Substation in Agusan del Norte to Placer Substation in Surigao del Norte. With this new line in place, cooperatives in Surigao del Norte and Surigao del Sur will benefit from improved voltage level, reduced transmission system losses, and the mitigation of power interruptions in the area.

NGCP's capabilities in this regard encompass all facets of transmission activities, from the conceptualizing to the commissioning of projects. NGCP contracts out the construction of its projects, subject to its supervision and quality control. NGCP believes that its experience and expertise in project implementation will serve it well as it undertakes a substantial expansion in the coming years in furtherance of the DOE's energy plan for the country.

#### ***Skilled, experienced, and high performing management team***

NGCP's senior management team has significant industry experience and relationships in the power and related industries. Majority of its key executives, including the President, Head of Revenue and Regulatory Affairs and Chief Technical Officer, have been with NGCP for more than 12 years, and have in-depth knowledge about the power industry. Under their stewardship, NGCP has accomplished multiple key milestones, particularly in relation to the improvement of the overall performance of the transmission Grid.

Furthermore, NGCP's operational protocols are controlled by its senior management team with more than 20 years of experience in the electric power industry, spanning from the NPC to the NGCP. NGCP's team of Filipino engineers have a rich knowledge about the local operational and technical settings.

The capabilities of NGCP's management team have been demonstrated by its strong track record of operational excellence, and the Group believe that the expertise and experience of NGCP's senior management team will continue to lead it towards success in project execution and enable it to respond to market opportunities efficiently.

## Strategies

The vision of NGCP is to build the strongest power grid, strive to maintain the best-in-class power utility practice in Southeast Asia, with the collective efforts of a world-class professional work force. NGCP strives to contribute to the nation's social and economic development and satisfy its stakeholders' needs by efficiently developing and operating the Grid to provide reliable electricity transmission service. NGCP's strategies are grounded on improving robustness of expansion, efficiency of operation, compliance with regulations and collaboration with key stakeholders, financial discipline, as well as environment and social responsibility.

The primary elements of its business strategy are as follows:

### *Expand and strengthen NGCP's transmission network*

From the time that NGCP was awarded with the concession, it has delivered sizable growth in transmission line length and substation capacity. As of June 30, 2021, NGCP has a transmission line length of 20,732 CKM and substation capacity of 41,696 MVA. Between 2009 and 2020, NGCP achieved CAGR of 21.3% in substation capacity, and CAGR of 12.0% in transmission line length.

NGCP is devoted to develop a unified national grid and continuously implement new high-voltage transmission backbone to expand the network and accommodate the needed generation capacity additions. As contained in the Transmission Development Plan (TDP) 2021-2040, NGCP is tasked to implement the stage-by-stage grid looping configurations for resiliency and reliability, implement additional submarine cable links between islands to allow power exchange, and implement new substations and capacity expansion of existing substations to ensure the adequacy and reliability of supply for the continuously increasing demand.

NGCP is committed to continuously investing in the nationwide transmission network to drive future growth. As of 2011, NGCP's regulatory asset base was ₱178 billion. From 2011 to 2020, NGCP's capital expenditure investments amounted to approximately ₱209 billion. For the 13-year period between 2021 and 2033, NGCP has committed to invest approximately ₱440 billion in capital expenditures across 211 projects, of which ₱160 billion will be invested during 2021 to 2025. The Group expects that NGCP's robust project pipeline and the Mindanao-Visayas Interconnection Project, which is a landmark project, to continue to expand its regulatory asset base.

### List of Recent Pipeline of Grid Development



	Project Name	Estimated Completion
1	Bolo-Laoag 500 kV Backbone	2028
2	Nagsaag to Kabugao 500 kV Backbone	2035
3	Western Luzon 500 kV Backbone	2025
4	Metro Manila 500 kV Backbone Loop	2029
5	Batangas-Mindoro Interconnection	2026
6	Luzon-Visayas HVDC Bipolar Operation	2028
7	Luzon-Visayas 230 kV AC Interconnection Project	2040
8	Palawan-Mindoro Interconnection	2035
9	Mindoro-Panay 230 kV Interconnection Project	2040
10	Cebu-Negros-Panay 230 kV Backbone Stage 3	2022
11	Metro Cebu 230 kV Backbone Loop	2038
12	Cebu-Bohol-Leyte 230 kV Backbone	2035
13	Mindanao-Visayas Interconnection	2022
14	Southwestern Mindanao 230 kV Backbone	2040
15	Eastern Mindanao 230 kV Backbone	2036

### *Actively manage NGCP's assets to improve operating performance and efficiency*

The ERC has set NGCP's targets in the PBR and Performance Incentive Scheme ("PIS"). ERC includes a PIS component in the RTWR that provides NGCP with an incentive to improve the quality of service provided to customers. NGCP follows strict maintenance procedures based on NGCP Operations and Maintenance Standards.

These procedures ensure that NGCP meets and exceeds the targets set by ERC. NGCP believes that maintaining superior performance levels will further improve relationships with customers, the ERC and the Government, and enhance the regulatory treatment of its business.

In order to maintain NGCP's strong network performance, NGCP undertakes significant measures to sustain its success in preventing major system failures from occurring across the transmission network. Based on the 3<sup>rd</sup> Regulatory Period Final Determination, NGCP is focused on the following key ERC-approved Performance Indices:

1. Frequency of Tripping (FOT): measures the number of forced transmission line outages (both transient and sustained) per 100 CKM initiated by the automatic tripping of protection relays
2. System Interruption Severity Index (SISI): is the sum of the total unsupplied energy of all delivery points in the system divided by the system peak load. Delivery Point refers to the point of supply where energy from the bulk system is transferred to the distribution system
3. System Availability (SA): refers to the availability of percentage of the system being considered to be on-line during the evaluation period
4. Frequency Limit Compliance (FLC): refers to the percentage of time during the reporting/rating period that the system frequency is within the allowable frequency range  $60 \pm 0.3\text{Hz}$
5. Voltage Limit Compliance (VLC): refers to the percentage of the number of voltage measurements during the evaluation period that the voltage variance did not exceed  $\pm 5\%$  of the nominal voltage of all buses identified
6. Congestion Availability (ConA): measures the availability of a subset of lines and transformers that will have potential severe impact on the operation of the electricity market
7. Ancillary Services Availability Index (ASAI): measures the availability of ancillary services on each of the three Main Grids
8. Customer Satisfaction Indicator (CSI): NGCP's performance on its CSI would be based on the responses to an annual survey of all generators, distribution utilities and directly connected customers that are connected to each of the three Main Grids

NGCP is committed to minimize tripping and system interruption, while maximizing system availability and frequency limit compliance. NGCP continue to focus on improving the quality of service and maintaining efficient operational costs by creating synergies and applying advanced technologies. NGCP implemented micro-processor-based substation control (MBSC), implemented upgrades of major equipment and upgrade of network protection and established emergency management command centers across the power grid. NGCP has realized considerable performance improvement since its takeover of the national transmission assets.

NGCP believes that its technical and engineering expertise, skilled workforce and its structured maintenance and operating procedures, enable it to achieve high network reliability and service quality. NGCP has been actively developing grid modernization strategies and investing in Smart Grid technology. NGCP has implemented the upgrade of Supervisory Control and Data Acquisition-Energy Management System (SCADA-EMS), installation of flexible AC transmission system (FACTS) for better system voltage control, installation of time synchronization devices, and transient fault recorders in major substations. These have significantly improved the observability and controllability including analysis of the Grid which is a complex power system. Moreover, NGCP's Smart Grid 2025 Roadmap will enable it to implement Cloud-Based SCADA, online monitoring of high voltage equipment and unmanned substation operations in various pilot areas through Central Control and Monitoring System (CCMS) and CCTV, advanced Enterprise Architecture and others by 2025. This will allow NGCP to achieve relevant ISO certification and further improve its operating performance and efficiency.

***Continue to comply with regulations and collaborate with key stakeholders***

As NGCP operates in a regulated sector in which its profitability is linked to the ERC MAR regime, correct execution of, and timely feedback on, the policy set by the regulators will be key to its vitality. NGCP is compliant with the EPIRA and Charter, and to continue collaboration with its key stakeholders in order to continue

contributing to the country's vision to ensure sustainable, reliable, secured, sufficient, and affordable energy services to the Filipino people.

NGCP actively engages in proper decorum and regular communication with the regulatory departments such as ERC and DOE, to share experience and expertise during the development/formulation of policies, and strives to strengthen its position in the country's power supply system. For example, NGCP serves as a guide for generation investors by identifying and recommending the ideal connection points for new power plants.

Sharing the same vision with the DOE and the government of Philippines, NGCP has also been fully supportive of the regulators' policy direction. NGCP plays an important role in supporting the country's thrust to establish sustainable and cleaner energy resources from indigenous renewable energy resources. NGCP has been part of the studies on Competitive Renewable Energy Zones (CREZ) that identified the areas with high quality RE resources, suitable topography and with strong developer interests. Accordingly, the transmission backbone projects needed to accommodate the RE plants are included in the Transmission Development Plan 2021-2040 and with some projects already filed with the ERC. With CREZ capacity for wind and solar plants reaching a total 34,646 MW across the country, NGCP's transmission projects are crucial in RE grid connections, power delivery to load centers and in driving the energy mix towards cleaner energy. From the year 2020 RE share of 21%, the DOE is targeting to increase the RE total share in the energy mix to 35% by 2030 and to 50% by 2040.

#### ***Maintain and grow a profitable and low risk business and financial profile***

NGCP derives the majority of its revenues from regulated activities. In operating its core transmission business, NGCP seeks to preserve an efficient, conservative capital structure and intends to continue to invest in the core regulated business in order to maintain a stable, consistent and profitable business profile and enable the Group to finance capital expenditures and pay dividends.

NGCP management is determined to comply with strict financial investment criteria and maintain stable capital structure. Under prudent guidance of senior management and in line with the Concession Agreement, NGCP maintains a debt-to-equity ratio within 4:1 and debt-service coverage ratio above 1.15:1 and establish internal buffer that place it in robust financial position. Majority of its indebtedness is 10-year unsecured term loans with annual amortization and 30% balloon payment on maturity date. NGCP is confident that its strong cash flow generation could support the repayment of such loans and allow it to maintain a healthy indebtedness level, while enabling it to continue access to debt capital markets to finance capital expenditure requirements. NGCP discloses information on financial and operating performance in accordance with accounting standards as well as compliant with statutory and regulatory reporting requirements.

The Group's historical profitability is discussed under "*Management's Discussion and Analysis of Financial Condition and Results of Operations—Results of Operations*" beginning on page 100 in this Prospectus. NGCP has historically declared and paid dividends on a quarterly basis, subject to the availability of unrestricted retained earnings and settlement of operational expenses and other relevant taxes, cost and expense required to be paid in the ordinary course of business, and subject to any financing covenants, if applicable. See "*Dividends and Dividend Policy*" for further details on the dividend policies of the Group. NGCP ensures compliance with the financial covenants and provisions in the Concession Agreement relative to dividends.

#### ***Commit to the sustainable development and social responsibilities***

NGCP aims to hold its business operations to the highest standards of sustainable development and social responsibility. NGCP maintains a strategic focus on a low carbon business portfolio and climate change projects and strengthens its integrated business management through short- and medium-term economic-financial and socio-environmental key performance indicators and targets, as well as long-term strategic objectives aligned with the national and international commitments.

NGCP places significant importance on the environment, social development, and governance in the conduct of its business.

NGCP aims to minimize harm to the environment by planning, designing, constructing, operating, maintaining, and decommissioning power transmission and support facilities in an environmentally-responsible and sustainable manner. In line with its fundamental environmental principles of Impact Minimization, Compliance, and Conservation, NGCP is committed to the implementation of an Environmental Management System (EMS) compliant to ISO 14001 Standards that will serve as the platform for effective environmental management; conduct of environmental risk identification and assessment in any activity; compliance with existing

environmental regulations, and the allocation of appropriate resources for the design and implementation of such programs, among others.

NGCP upholds its responsibility towards the host communities where its operations are located. To support this, NGCP has established three pillars or advocacy groups where CSR efforts are focused: community development, sustainable livelihood, and environmental stewardship.

Through community development programs, NGCP provides the structural needs of its partner communities, giving them conducive spaces and facilities such as health centers and multi-purpose covered courts, as well as conducting medical missions, disaster risk reduction trainings, and outreach activities. NGCP is also committed to promoting sustainable livelihood and has provided various means of support to partner communities through capacity-building activities. Environmental stewardship programs are also carried out to ensure the sustainability of operations.

In terms of good corporate governance, it is the policy of NGCP to establish and uphold the highest standards of ethical behaviors among its employees, management, and board. NGCP discourages situations or conditions that would result to, or create conflict of interest between NGCP and its employees, and shall require full disclosure of such to the management. All employees are enjoined to uphold the best interest of the Company.

NGCP minimizes harm to the environment by planning, designing, constructing, operating, maintaining, and decommissioning power transmission and support facilities in an environmentally responsible and sustainable manner. NGCP designs, develops, implements and continuously review an Environmental Management System compliant with ISO standards that will serve as the platform for effective environmental management.

NGCP's contribution in reducing CO<sub>2</sub> emissions is tied up with the implementation of transmission projects needed by renewable energy plants to support the country's target to reduce the dependence on fossil fuels. Through the CREZ process, the areas in the country with rich RE resources have been identified and NGCP will provide the needed transmission facilities. In addition, NGCP's interconnection projects for off-grid areas such as Mindoro, Marinduque and Catanduanes will provide access to cleaner energy resources from the main grid thereby eliminating the high dependence of the islands on diesel plants. The interconnection projects are also expected to encourage development of indigenous renewable energy resources in the islands as a result of wider market opportunity.

NGCP also serves a pivotal role in enabling renewable energy delivery in Philippines, through investing heavily in the renewable technology space – from 2011 to 2020, ₱56 billion has been invested by NGCP into transmission projects that benefited from the delivery of power from existing and new hydro, geothermal, wind and solar power plants. Ongoing projects that will benefit renewable energy plants include Binga-San Manuel and Ambuklao-Binga 230 kV Line, San Jose-Angat 115 kV Line, Cebu-Negros-Panay 230 kV Backbone Stage 3, Panay-Guimaras 138 kV Interconnection, and Agus 2 Switchyard Upgrading. In addition, the established Competitive Renewable Energy Zones (CREZ) in the country would benefit from additional transmission line projects such as the Northern Luzon 230 kV Loop, Nagsaag-Santiago 500 kV T/L, Bolo-Balaoan and Balaoan-Laoag 500 kV T/L Project.

#### **SYNERGY INVESTOR RELATIONS OFFICE**

The investor relations office will implement the investor relations program in order to reach out to all shareholders and keep them informed of corporate activities. The office will also handle communication of relevant information to our stakeholders as well as to the broader investor community. The investor relations office will also be responsible for receiving and responding to investor and shareholder queries relating to SGP.

Ms. Justice Lady P. Soriano has been appointed by the Board as the head of the investor relations office and to serve as our Investor Relations Officer (“**IRO**”). The IRO will ensure that SGP complies with and files on a timely basis all required disclosures and continuing requirements of the Philippine SEC and the PSE. In addition, the IRO will oversee most aspects of the shareholder meetings, press conferences, investor briefings, and management of the investor relations portion of SGP's website.

The investor relations office will be located in SGP's principal place of business with contact details as follows:

Landline: +63 2 8584 3930

E mail: [investorrelations@synergygrid.ph](mailto:investorrelations@synergygrid.ph)

Website: [synergygrid.ph](http://synergygrid.ph)

**ISSUER INFORMATION**

SGP is a Philippine corporation organized under the laws of the Philippines with its registered principal office address is 16th Floor, Tycoon Center Bldg. Condominium, Pearl Drive, Pasig City, Metro Manila, Philippines and with telephone number: +63 2 8485 3930. SGP's corporate website is [www.synergygrid.ph](http://www.synergygrid.ph). Information in the website is not incorporated by reference into, and does not form part of, this Prospectus.

## SUMMARY OF THE OFFER

*The following does not purport to be a complete listing of all the rights, obligations, and privileges attaching to or arising from the Offer Shares. Some rights, obligations, or privileges may be further limited or restricted by other documents and subject to final documentation. Prospective investors are enjoined to perform their own independent investigation and analysis of the Issuer and the Offer Shares. Each prospective investor must rely on its own appraisal of the Group and the Offer Shares and any other investigation it may deem appropriate for the purpose of determining whether to invest in the Common Shares and must not rely solely on any statement or the significance, adequacy, or accuracy of any information contained herein. The information and data contained herein are not a substitute for the prospective investor's independent evaluation and analysis.*

<b>Issuer</b> .....	Synergy Grid & Development Phils., Inc.
<b>Selling Shareholders and Principal Shareholders</b> .....	Mr. Henry T. Sy, Jr. and Mr. Robert G. Coyiuto, Jr.
<b>Financial Advisors</b> .....	Standard Chartered Bank and Philippine Commercial Capital, Inc.
<b>Joint Global Coordinators and Joint Bookrunners</b> .....	BofA Securities and UBS
<b>Sole Domestic Coordinator</b> .....	BDO Capital
<b>Joint Domestic Lead Underwriters and Joint Bookrunners</b> .....	BDO Capital, BPI Capital, PNB Capital
<b>Selling Agents</b> .....	PSE Trading Participants
<b>The Offer</b> .....	Offer of 1,053,500,000 Firm Shares (comprising Primary Shares) to be offered and issued by the Issuer with an offer of up to 101,000,000 Option Shares by the Selling Shareholders pursuant to the Overallotment Option (as described below)
<b>Offer Price</b> .....	₱12.00 per Offer Share
<b>Institutional Offer</b> .....	790,125,000 Firm Shares (about 75% of the Firm Shares) are being offered for sale: (i) outside the United States by the Joint Global Coordinators and Joint Bookrunners in offshore transactions in reliance on Regulation S of the U.S. Securities Act, and (ii) to certain qualified buyers and other investors in the Philippines, by the Joint Domestic Lead Underwriters and Joint Bookrunners. The Option Shares will form part of the Institutional Offer.
	The allocation of the Offer Shares between the Trading Participants and Retail Offer and the Institutional Offer is subject to adjustment as agreed between the Joint Global Coordinators and Joint Bookrunners and Joint Domestic Lead Underwriters and Joint Bookrunners, as well as oversubscription or undersubscription of either or both the Trading Participants and Retail Offer and the Institutional Offer. See “— <i>Reallocation</i> ” below.
<b>Trading Participants and Retail Offer</b> .....	263,375,000 Firm Shares (or 25% of the Firm Shares) are being offered in the Trading Participants and Retail Offer in

the Philippines at the Offer Price (the “**Trading Participants and Retail Offer Shares**”).

210,700,000 Firm Shares (about 20% of the Firm Shares) (the “**Trading Participants Offer Shares**”) are being offered to the PSE Trading Participants, and 52,675,000 Firm Shares (or 5% of the Firm Shares) (the “**Retail Offer Shares**”) are being allocated to local small investors (“**LSIs**”).

Each PSE Trading Participant shall initially be allocated 1,685,600 Firm Shares.

LSIs shall subscribe through the PSE Electronic Allocation System (“**PSE EASy**”). An LSI is defined as a subscriber to a share offer who is willing to subscribe to a minimum board lot or whose subscription does not exceed ₱100,000.00 or such higher amount as may be approved by the PSE and the Philippine SEC. In the case of this Offer, the minimum subscription of LSIs shall be 500 Firm Shares or ₱6,000.00, while the maximum subscription shall be 83,300 Firm Shares or up to ₱999,600.00. There will be no discount on the Offer Price. The procedure in subscribing to Offer Shares via PSE EASy is indicated in the Issuer’s Implementing Guidelines for Local Small Investors to be announced through the PSE EDGE website. Should the total demand for the Offer Shares in the LSI program exceed the maximum allocation, the Joint Domestic Lead Underwriters and Joint Bookrunners shall prioritize the subscriptions of LSIs with amounts lower than the maximum subscription.

The Joint Domestic Lead Underwriters and Joint Bookrunners shall purchase the Trading Participants and Retail Offer Shares not reallocated to the Institutional Offer or otherwise not taken up by the PSE Trading Participants or clients of the Joint Domestic Lead Underwriters and Joint Bookrunners or the general public in the Philippines pursuant to the terms and conditions of the Domestic Underwriting Agreement.

The allocation of the Offer Shares between the Trading Participants and Retail Offer and the Institutional Offer is subject to adjustment as agreed between the Joint Global Coordinators and Joint Bookrunners and Joint Domestic Lead Underwriters and Joint Bookrunners, as well as oversubscription or undersubscription of either or both the Trading Participants and Retail Offer and the Institutional Offer. See “—*Reallocation*” below.

**Overallotment Option .....**

Pursuant to the letter approval of the Philippine SEC dated October 20, 2021, the Selling Shareholders have granted the Stabilizing Agent, UBS AG Singapore Branch and its relevant affiliates, an option, exercisable in whole or in part, to purchase up to 101,000,000 Option Shares at the Offer Price, on the same terms and conditions as the Offer Shares as set out in this Prospectus and effect price stabilization transactions. The Overallotment Option is exercisable from time to time for a period which shall not exceed 30 calendar days from and including the Listing Date. See “*Plan of*

	<p><i>Distribution—The Overallotment Option</i>” on page 294 of this Prospectus.</p>
<b>Use of Proceeds</b> .....	<p>The Issuer intends to use the net proceeds from the sale of the Firm Shares primarily to subscribe to non-voting preferred shares to be issued by NGCP, subject to applicable laws and regulations. The Issuer will not receive any proceeds from the sale of the Option Shares by the Selling Shareholders.</p> <p>See “<i>Use of Proceeds</i>” on page 70 of this Prospectus.</p>
<b>Minimum Subscription and Board Lot</b> ....	<p>Each application must be for a minimum of 500 Common Shares, and thereafter, in multiples of 100 Shares (the “<b>Board Lot</b>”). Applications for multiples of any other number of Shares may be rejected or adjusted to conform to the required multiple, at our discretion.</p>
<b>Reallocation</b> .....	<p>The allocation of the Offer Shares between the Trading Participants and Retail Offer and the Institutional Offer is subject to adjustment as agreed between the Joint Global Coordinators and Joint Bookrunners and Joint Domestic Lead Underwriters and Joint Bookrunners. In the event of an under-application in the Institutional Offer and a corresponding over-application in the Trading Participants and Retail Offer, Firm Shares in the Institutional Offer may be reallocated to the Trading Participants and Retail Offer. If there is an under-application in the Trading Participants and Retail Offer and if there is a corresponding over-application in the Institutional Offer, Firm Shares in the Trading Participants and Retail Offer may be reallocated to the Institutional Offer. The reallocation shall not apply in the event of over-application or under-application in both the Trading Participants and Retail Offer, on the one hand, and the Institutional Offer, on the other hand.</p>
<b>Listing and Trading</b> .....	<p>SGP filed an application with the Philippine SEC for the registration, and an application with the PSE for the listing, of the Offer Shares. The Philippine SEC is expected to issue the Order of Registration and Permit to Sell on or about October 25, 2021 and the PSE issued its Notice of Approval in a letter dated October 14, 2021, subject to compliance with certain listing conditions.</p> <p>All of the Offer Shares to be issued are expected to be listed on the Main Board of the PSE under the symbol “<b>SGP</b>”. See “<i>Description of the Shares</i>” on page 266 of this Prospectus.</p>
<b>Dividends and Dividend Policy</b> .....	<p>SGP is authorized to declare dividends. A cash dividend declaration requires approval from the Board. A stock dividend declaration requires the further approval of shareholders representing not less than two-thirds of our outstanding capital stock. Dividends may be declared only from available unrestricted retained earnings.</p>

Upon declaration by the Board of Directors and subject to the availability of unrestricted retained earnings and settlement of operational expenses and other relevant taxes, costs and expenses required to be paid by SGP in the ordinary course of business, and subject to any financing covenants, if applicable, SGP may declare dividends equivalent to up to 100% of the prior year's net income after tax based on its audited financial statements as of such year.

On August 10, 2021, the board of directors of each of OneTaipan, Monte Oro, Pacifica21 and Calaca adopted similar resolutions as SGP on the declaration of dividends, which provide that stockholders are entitled to up to 100% of the prior year's net income after tax based on the relevant company's audited financial statements as of such year, subject to the availability of unrestricted retained earnings and settlement of operational expenses and other relevant taxes, cost and expense required to be paid in the ordinary course of business, and subject to any financing covenants, if applicable.

Under the dividend policy of NGCP, any declaration of dividends must be aligned with the objective of maintaining a level of capitalization that is commercially sound and must ensure that NGCP can sustainably operate while creating value for its shareholders. As such, NGCP will work towards maximizing dividends within the framework of the policy. Its board of directors shall approve the declaration of cash dividends out of its unrestricted retained earnings subject to the following conditions:

- (i) Compliance with the pertinent provisions of the Concession Agreement on dividends. The Concession Agreement provides that NGCP can declare dividends (even without PSALM's consent), if (a) there is no occurrence or continuation of a Concessionaire's Default<sup>[3]</sup> or an event that might become a Concessionaire's Default with the lapse of time or the giving of notice or both; and (b) there is no Deferred Payments that remain unpaid or, even if some Deferred Payments are unpaid, the required Financial Tests<sup>[4]</sup> are met as at the date any dividend is declared or paid. If any of the above conditions is not met, NGCP can declare dividends only with the prior written consent of PSALM.

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<sup>[3]</sup> Section 13.01 of the Concession Agreement provides for the following events of default by NGCP: (a) revocation of congressional franchise or other authority to operate; (b) cessation of eligibility to hold a congressional franchise or other authority to operate a public utility; (c) occurrence of a change in control without PSALM's written consent or breach of equity retention; (d) default in making timely payment of any amount payable of the concession fee; (e) material default in the observance or performance of any other covenant; (f) declaration by any party or parties to any material indebtedness to be in default; (g) event of bankruptcy; (h) material misrepresentation or incorrect warranty; and (i) abandonment.

<sup>[4]</sup> Financial tests means that as of the date a dividend is declared or as of the date a dividend or remittance on account of shareholder loans or advances is made (the "relevant date"), (i) no installment of the Deferred Payments or other Indebtedness shall be in arrears, and (ii) the Debt Service Coverage Ratio as at the relevant date is not less than one decimal fifteen (1.15).

- (ii) Compliance with applicable covenants under any loan agreements with banks and financial institutions, whether local or foreign;
- (iii) Compliance with the provisions of the Revised Corporation Code on dividend declaration and applicable issuance of the Philippine SEC; and
- (iv) Any dividend declaration shall also be subject to and consider, among others (a) capital expenditure requirements and settlement of operational expenses; (b) legal and regulatory requirements that determine cash flows available for capital expenditure, operational requirements and dividends; and (c) market and financial conditions and other contingencies that may affect the Corporation's cash flows and funding requirements.

See “*Dividends and Dividend Policy*” on page 75 of this Prospectus.

**Restrictions on Ownership .....**

The Offer Shares will be in scripless form and may be purchased and owned by any person or entity regardless of citizenship or nationality, subject to the nationality limits and certain ownership limits under Philippine law and cross-ownership restrictions under the Franchise.

The Philippine Constitution and related statutes set forth restrictions on foreign ownership for companies engaged in certain activities. Considering that SGP is the indirect controlling shareholder of NGCP, which operates as a public utility and also owns certain real estate in the Philippines, foreign equity in SGP cannot exceed 40.0% of SGP's (a) total number of outstanding shares of stock entitled to vote in the election of directors, and (b) the number of outstanding shares of stock, whether or not entitled to vote in the election of directors. For more information relating to restrictions on the ownership of the Common Shares, please see “*Description of the Shares*” and “*Regulatory and Environmental Matters—Foreign Investment Laws and Regulations relating to Restrictions on Foreign Equity.*”

*Cross Ownership Rule*

In addition, certain ownership restrictions affecting the Offer Shares are set out in the Franchise. Accordingly, for as long as Synergy is listed on the PSE and owns or controls NGCP, ownership of shares in Synergy is subject to the following restrictions: (i) a Power Industry Player (as defined herein) or its stockholders, directors or officers, or any of their relatives within the fourth civil degree of consanguinity (except if such relative, whether by blood or marriage, has no employment, consultancy, fiduciary, contractual, commercial or other economic relationship or interest in such Power Industry Player) and their respective spouses, shall not be allowed to own more than 1% of the total outstanding shares of Synergy,

provided, however, that a stockholder of a PSE-listed Power Industry Player owning not more than 1% of the total outstanding shares of the same Power Industry Player shall not be subject to the foregoing restriction; and (ii) a stockholder of Synergy shall not own more than 1% of the shares of stock or equity interest in any Power Industry Player. Any issuance or transfer of shares of Synergy in violation of the foregoing restrictions shall be void.

An investor purchasing the Offer Shares represents and warrants that it is compliant with the Cross-Ownership Rule under the Franchise and SGP's Articles of Incorporation.

**Transfer Restrictions** .....

The Institutional Offer Shares are being offered for sale: (i) outside the United States by the Joint Global Coordinators and Joint Bookrunners in offshore transactions in reliance on Regulation S of the U.S. Securities Act, and (ii) to certain qualified buyers and other investors in the Philippines, by the Joint Domestic Lead Underwriters and Joint Bookrunners. The Offer Shares have not been and will not be registered under the U.S. Securities Act. The Offer Shares may be subject to certain transfer restrictions as described herein. See *“Plan of Distribution—The Institutional Offer.”*

**Lock Up**.....

See *“Plan of Distribution—Lock Up”* on page 295.

**Registration of Foreign Investments**.....

The BSP requires that investments in shares of stock funded by inward remittance of foreign currency be registered with the BSP only if the foreign exchange needed to service capital repatriation or dividend remittance will be sourced from the Philippine banking system. Upon registration of the investment, proceeds of divestments, or dividends of registered investments are repatriable or remittable immediately and in full through the Philippine banking system, net of applicable tax, without need of BSP approval. The registration with the BSP of all foreign investments in the Offer Shares shall be the responsibility of the foreign investor. See *“Regulatory and Environmental Matters—Foreign Investment Laws and Regulations relating to Restrictions on Foreign Equity—Registration of Foreign Investments and Exchange Controls”* on page 243 of this Prospectus.

**Tax Considerations** .....

The tax treatment of a prospective investor may vary depending on such investor's particular situation and certain investors may be subject to special rules, which may or may not be discussed in this Prospectus. See *“Philippine Taxation”* on page 282 for further information on the Philippine tax consequences of the purchase, ownership and disposal of the Offer Shares.

**Eligible Investor** .....

Any person, corporation, association or partnership, regardless of nationality, but subject to limits under Philippine law and the restrictions set out in this Prospectus,

and without prejudice to the right of the Issuer to reject an application, including the right to reject if the same will cause the Issuer to be in breach of the Philippine ownership requirements under relevant Philippine laws or the Cross-Ownership Rule under the Franchise.

An investor purchasing the Offer Shares represents and warrants that it is compliant with the Cross-Ownership Rule under the Franchise and SGP's Articles of Incorporation.

#### **Procedure for Application for the Offer...**

#### **For Trading Participants Offer**

Application forms and signature cards may be obtained from any of the Joint Domestic Lead Underwriters and Joint Bookrunners, or from any participating Trading Participant, and shall be made available for download on the Issuer's website. Applicants shall complete the application form, indicating all pertinent information such as the applicant's name, address, contact number, taxpayer's identification number, citizenship and all other information as may be required in the application form and shall provide all the required documents. Applicants shall undertake to sign all documents and to do all necessary acts to enable them to be registered as holders of Offer Shares. Failure to complete the application form may result in the rejection of the application.

All Applications shall be evidenced by the application to purchase form, in quadruplicate, duly executed by the applicants themselves or by the authorized signatory(ies) of the applicant (in the case of an applicant that is not a natural person), and accompanied by the corresponding payment for the Offer Shares covered by the Application and all other required documents.

If the applicant is an individual person, the Application must be accompanied by the following documents:

- Two (2) duly executed specimen signature cards, duly authenticated by the Applicant's nominated PDTCC Participant (as defined below) or the Joint Domestic Lead Underwriters and Joint Bookrunners (if the Applicant is a client of the Joint Domestic Lead Underwriters and Joint Bookrunners);
- Photocopy of two (2) valid and current government-issued IDs (e.g., SSS, GSIS, Driver's License, Passport or PRC) OR photocopy of one (1) valid and current Primary ID and one (1) valid and current Secondary ID (Note: For joint applications (i.e. multiple Applicants in one Application), two (2) valid and current government-issued IDs of each applicant/investor will be required).
- Such other documents as may be reasonably required by the Joint Domestic Lead Underwriters and Joint Bookrunners in compliance with their

respective internal policies regarding “knowing your customer” and anti-money laundering.

If the applicant is a corporation, partnership, trust account, or any other legal person, the Application must be accompanied by the following documents:

- two (2) duly executed specimen signature cards of the authorized signatory(ies), duly authenticated by the applicant’s corporate secretary (or the equivalent corporate officer);
- a certified true copy of the applicant’s latest articles of incorporation and by-laws (or the equivalent documents) and other constitutive documents (each as amended to date) duly certified by its corporate secretary (or the equivalent corporate officer authorized to provide such certification);
- a certified true copy of the applicant’s certificate of registration issued by the relevant regulating body of the applicant’s country of incorporation or organization duly certified by its corporate secretary (or the equivalent corporate officer authorized to provide such certification);
- a duly notarized corporate secretary’s certificate (or the equivalent document) setting forth the resolutions of the applicant’s board of directors or equivalent body, namely: (i) authorizing the purchase of the Offer Shares indicated in the application, (ii) identifying the list of designated signatory(ies) authorized for the purpose mentioned in (i), including each signatory’s specimen signature, and (iii) certifying the percentage of the applicant’s capital or capital stock held by Philippine nationals;
- a photocopy of two (2) valid and current government-issued IDs (e.g. SSS, GSIS, Driver’s License, Passport or PRC ID) of (a) the authorized signatory/ies, duly certified as a true copy by the Corporate Secretary and (b) the Corporate Secretary, duly certified as true copy by an authorized officer of the corporation; and
- such other documents as may be reasonably required by the Joint Domestic Lead Underwriters and Joint Bookrunners in compliance with their respective internal policies regarding “knowing your customer” and anti-money laundering.

For foreign corporate and institutional Applicants, in addition to the foregoing documents, a certification, in quadruplicate,

representing and warranting that their investing in the Offer Shares subject of the Application will not violate the laws of their jurisdiction and that they are allowed to acquire, purchase and hold the Offer Shares.

**For Local Small Investors**

For LSI applicants, applications to purchase the Retail Offer Shares shall be done via the PSE Electronic Allocation System or “PSE EASy” (<https://easy.pse.com.ph/>). LSI applications shall be allocated through a distribution mechanism wherein fully paid applications will be allocated in ascending order (i.e. from the lowest to the highest), and upon the Domestic Receiving Agent’s validation or confirmation of complete payment of the purchased shares. Multiple applications (i.e. two or more applications by the same LSI applicant) will not be allowed.

With respect to the LSIs, the procedure in subscribing to the Offer Shares via “PSE EASy” shall be described in the Issuer’s Implementing Guidelines for Local Small Investors to be announced through the PSE EDGE website. Should the total demand for the Offer Shares in the LSI program exceed the maximum allocation, the Joint Domestic Lead Underwriters and Joint Bookrunners shall prioritize subscriptions of small investors with amounts lower than the maximum subscription.

**Payment Terms for the Offer .....**

The purchase price must be paid in full in Philippine Pesos upon the submission of the duly completed and signed application form and specimen signature card together with the requisite attachments.

For the Institutional Offer, payment for the Offer Shares shall be made either by: (i) a personal or corporate check drawn against an account with a BSP authorized bank having a clearing period of no more than one business day, (ii) a manager’s or cashier’s check issued by a BSP authorized bank having a clearing period of no more than 1 business day; or (iii) a direct remittance via Real Time Gross Settlement (“RTGS”) or any other remittance services, or an intrabank fund transfer.

For the Trading Participants and Retail Offer, payment for the Offer Shares shall be made through over-the-counter cash or check deposit payment in any branch of BDO Unibank.

For check payments, only personal or corporate checks, and manager’s or cashier’s checks with a clearing period of not more than one business day and drawn against any BSP authorized agent bank will be accepted as a valid mode of payment. The check must be dated as of the date of submission of the Application, made payable to “**STSI FAO SGP FOO**”, and crossed “Payee’s Account Only”. Checks

subject to clearing periods of over one (1) banking day shall not be accepted.

The applications and required documents (including proof of payments) shall be transmitted to the Domestic Receiving Agent by electronic mail at [sgp@stocktransfer.com.ph](mailto:sgp@stocktransfer.com.ph) copy furnished [stsi@stocktransfer.com.ph](mailto:stsi@stocktransfer.com.ph) on or before the end of the offer period, with the physical copies delivered to the Domestic Receiving Agent's address at 34-D Rufino Pacific Tower, 6784 Ayala Avenue, Makati City, 1226 Philippines no later than two business days after the end of the offer period.

**Acceptance or Rejection of Applications  
for the Trading Participants and Retail  
Offer .....**

Applications for the Offer Shares are subject to the confirmation of the Issuer and the Joint Domestic Lead Underwriters and Joint Bookrunners. The Issuer, in consultation with the Joint Domestic Lead Underwriters and Joint Bookrunners, reserves the right to accept, reject or scale down the number and amount of Offer Shares covered by any Application. The Issuer and the Joint Domestic Lead Underwriters and Joint Bookrunners have the right to reallocate available Offer Shares in the event that the Offer Shares are insufficient to satisfy total applications received.

The Trading Participants Offer Shares will be allocated in such a manner as the Issuer and the Joint Domestic Lead Underwriters and Joint Bookrunners may, in their sole discretion, deem appropriate, subject to the distribution guidelines of the PSE.

Applications with the checks dishonored upon first presentment and application forms which do not comply with the terms of the Offer will automatically be rejected. Notwithstanding the acceptance of any Application, the actual acquisition of the Offer Shares by an applicant will be effective only upon the crossing and listing of the Offer Shares on the PSE.

Applications may be rejected if (i) the subscription price is unpaid; (ii) payments are insufficient or where checks, as applicable, are dishonored upon first presentment; (iii) the Applications are not received by the Domestic Receiving Agent or any of the Joint Domestic Lead Underwriters and Joint Bookrunners or the Selling Agents on or before the end of the Offer Period; (iv) the number of Offer Shares subscribed is less than the minimum amount of subscription; (v) the Applications do not comply with the terms of the Offer; or (vi) the Applications do not have sufficient information as required in the Application to Purchase or are not supported by the required documents.

**Refunds of the Trading Participants and  
Retail Offer .....**

In the event that the number of Offer Shares received by an applicant, as confirmed by the Joint Domestic Lead

Underwriters and Joint Bookrunners, is less than the number covered by its application, or if an application is rejected by the Issuer, then the applicant is entitled to a refund, without interest, starting on the fifth business day from the end of the Offer Period or on November 9, 2021, of all or a portion of the applicant's payment corresponding to the number of Offer Shares wholly or partially rejected. All refunds shall be made through the Domestic Receiving Agent, at the applicant's risk. If such check refunds are not claimed after 30 calendar days following the beginning of the refund period, such checks shall be mailed to the applicant's registered address at the applicant's risk.

**Registration and Lodgment of Shares with the PDTC.....**

The Offer Shares are required to be lodged with the PDTC. The applicant must provide the information required for the PDTC lodgment of the Offer Shares. The Offer Shares will be ready for lodgment with the PDTC at least three (3) trading days prior to the Listing Date, and a certification to that effect shall be submitted to the PSE at least three (3) trading days prior to the Listing Date. Applicants may request to receive share certificates evidencing their investment in the Offer Shares through their brokers after the Listing Date. Any expense to be incurred by such issuance of certificates shall be borne by the applicant.

**Expected Timetable.....**

The timetable of the Offer is expected to be as follows:

Pricing .....	October 22, 2021
Notice of final Offer Price and submission of Final Prospectus to the Philippine SEC and PSE.....	October 22, 2021
Receipt of the Permit to Sell from the Philippine SEC .....	October 25, 2021
Trading Participants and Retail Offer Period.....	October 26 to November 2, 2021
PSE Trading Participants' Commitment Period.....	October 26 to October 28, 2021
Submission of Firm Order and Commitments by PSE Trading Participants .....	October 28, 2021
Submission of Application and payments of Trading Participants . .....	November 2, 2021
Trading Participants and Retail Offer Settlement Date.....	November 2, 2021

Settlement Date and Listing of  
Offer Shares on the PSE ..... November 10, 2021

The dates included above are subject to the approval of the PSE and the Philippine SEC, market and other conditions, and may be changed.

**Risks of Investing** .....

In making an investment decision, investors are advised to carefully consider all the information contained in the Prospectus, including the risks associated with an investment in the Offer Shares. These risks include:

- risks relating to the Issuer
- risks relating to NGCP and its operations;
- risks relating to the Philippines;
- risks relating to the Offer and the Offer Shares; and
- risks relating to certain information in this Prospectus.

For a more detailed discussion on certain of these risks, see “*Risk Factors*” beginning on page 39, which while not intended to be an exhaustive enumeration of all risks, must be considered in connection with a purchase of the Offer Shares. The Offer Shares are offered solely on the basis of the information contained in the Prospectus.

**Domestic Receiving Agent** .....

Stock Transfer Service, Inc.

**Stock and Transfer Agent**.....

Stock Transfer Service, Inc.

**Philippine Counsel for the Issuer and the Selling Shareholders**.....

SyCip Salazar Hernandez & Gatmaitan

**International Counsel for the Issuer and the Selling Shareholders** .....

Latham & Watkins LLP

**Philippine Counsel for the Underwriters** .

Picazo Buyco Tan Fider & Santos

**International Counsel for the Underwriters**.....

Milbank LLP

**Independent Auditors** .....

R.G. Manabat & Co., a member firm of KPMG International Limited

## SUMMARY FINANCIAL AND OPERATING INFORMATION

The following tables present the summary of financial information and should be read in conjunction with the independent auditors' reports and the Group's consolidated financial statements, including the notes thereto, included elsewhere in this Prospectus, and the section entitled "Management's Discussion and Analysis of Financial Condition and Results of Operations." The summary financial information as of and for the years ended December 31, 2020, 2019 and 2018, as of and for the years ended December 31, 2018 and 2017 and as of and for the six months ended June 30, 2021 and 2020 were derived from the Group's consolidated audited financial statements, which were prepared in accordance with PFRS and were audited by RGM in accordance with the PSA.

The Share Swap transaction wherein the Issuer issued Common Shares in exchange for the shares of stock of OneTaipan and Pacifica21 resulted in a business combination involving OneTaipan and Pacifica21, including NGCP. SGP is considered to be a business combination of entities under common control as the two Principal Shareholders jointly control SGP, OneTaipan, Pacifica21 and NGCP before and after the Share Swap transaction. Accordingly, the consolidated financial information of the Group were restated as a result of the retrospective application of the accounting for business combination 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. The consolidated financial statements as of December 31, 2020 and 2019 and for the years ended December 31, 2020, 2019 and 2018, and as of and for the years ended December 31, 2018 and 2017 were restated as if the entities had always been combined for the periods that the entities were under common control. See note 6 of the 2020 audited financial statements elsewhere in this Prospectus.

The summary financial information below is not necessarily indicative of the results of future operations. Furthermore, the translation of Philippine Peso amounts into U.S. dollars is provided for convenience only and is unaudited. Amounts in Philippine Pesos were converted to U.S. dollars using the BSP Daily Reference Exchange Rate as of June 30, 2021 of U.S.\$1.00 = ₱48.544.

### SUMMARY STATEMENTS OF COMPREHENSIVE INCOME

	For the years ended December 31,				For the six-month period ended June 30,		
	2018	2019	2020	2020 (unaudited)	2020 (unaudited)	2021 (unaudited)	2021 (unaudited)
	(in millions of ₱)			(in millions of U.S.\$)	(in millions of ₱)	(in millions of ₱)	(in millions of U.S.\$)
<b>REVENUES – NET ....</b>	45,402.0	45,396.5	48,606.6	1,001.29	24,183.1	24,186.2	498.2
<b>EXPENSES .....</b>	17,672.2	18,179.1	19,042.6	392.28	9,554.3	8,915.4	183.7
<b>INCOME FROM OPERATIONS .....</b>	27,729.8	27,217.5	29,564.0	609.01	14,628.9	15,270.8	314.6
<b>OTHER INCOME (CHARGES) – NET .....</b>	(6,784.7)	(7,196.1)	(6,127.4)	(126.22)	(3,247.3)	(2,771.5)	(57.1)
<b>CONSTRUCTION REVENUE AND COSTS .....</b>	-	-	-	-	-	-	-
<b>NET INCOME BEFORE TAX .....</b>	20,945.1	20,021.4	23,436.6	482.8	11,381.5	12,499.3	257.5
<b>INCOME TAX EXPENSE .....</b>	0.2	1.1	0.8	0.0	0.5	0.2	0.0

	For the years ended December 31,				For the six-month period ended June 30,		
	2018	2019	2020	2020 (unaudited)	2020 (unaudited)	2021 (unaudited)	2021 (unaudited)
	(in millions of ₱)			(in millions of U.S.\$)	(in millions of ₱)	(in millions of ₱)	(in millions of U.S.\$)
<b>NET INCOME .....</b>	<u>20,945.0</u>	<u>20,020.2</u>	<u>23,435.8</u>	<u>482.77</u>	<u>11,381.0</u>	<u>12,499.1</u>	<u>257.5</u>
<b>Attributable to:</b>							
Equity holders of the Parent Company.....	<u>8,407.7</u>	<u>8,042.1</u>	<u>9,394.8</u>	<u>193.5</u>	<u>4,558.3</u>	<u>5,012.1</u>	<u>103.2</u>
Non-controlling interests.....	<u>12,537.2</u>	<u>11,978.1</u>	<u>14,041.0</u>	<u>289.2</u>	<u>6,822.7</u>	<u>7,487.0</u>	<u>154.2</u>
<b>BASIC AND DILUTED EARNINGS PER SHARE</b>	<u>2.03</u>	<u>1.94</u>	<u>2.26</u>	<u>N/A</u>	<u>1.10</u>	<u>1.21</u>	<u>N/A</u>

#### SUMMARY STATEMENTS OF FINANCIAL POSITION

	As of December 31,				As of June 30,	
	2018	2019	2020	2020 (unaudited)	2021 (in millions of ₱)	2021 (unaudited) (in millions of U.S.\$)
	(in millions of ₱)			(in millions of U.S.\$)		
<b>Noncurrent assets:</b>						
Intangible asset – net ...	210,687.5	234,827.7	267,754.7	5,515.7	281,837.1	5,805.8
Property and equipment – net .....	3,729.2	4,175.9	3,974.9	81.9	3,968.0	81.7
Deferred input VAT.....	76.4	-	-	-	-	-
Receivables – net of current portion .....	1.5	169.4	102.6	2.1	70.9	1.7
Goodwill .....	10,471.6	10,471.6	10,471.6	215.7	10,471.6	215.7
Other noncurrent assets	-	159.8	146.5	3.0	139.7	2.9
<b>Total noncurrent assets .....</b>	<u>224,966.2</u>	<u>249,804.5</u>	<u>282,450.4</u>	<u>5,818.4</u>	<u>296,487.4</u>	<u>6,103.5</u>
<b>Current assets:</b>						
Cash and cash equivalents .....	13,626.3	16,015.4	14,081.2	290.1	9,816.9	202.2
Receivables – net .....	10,277.6	9,186.4	13,577.6	279.7	14,722.3	303.3
Prepaid expenses and other current assets .....	26,672.9	32,393.4	34,503.0	710.8	26,759.0	551.2
Derivative asset.....	-	-	-	-	-	-
<b>Total current assets....</b>	<u>50,576.8</u>	<u>57,595.3</u>	<u>62,161.8</u>	<u>1,280.5</u>	<u>51,298.2</u>	<u>1,056.7</u>
<b>Total assets .....</b>	<u>275,543.0</u>	<u>307,399.7</u>	<u>344,612.2</u>	<u>7,099.0</u>	<u>347,785.6</u>	<u>7,164.3</u>
<b>Noncurrent liabilities:</b>						
Loans payable – net of current portion .....	94,350.6	116,623.9	122,503.9	2,523.6	126,484.6	2,605.6
Retirement benefits liability .....	1,055.0	1,615.9	2,027.1	41.8	1,886.0	38.9

	As of December 31,				As of June 30,	
	2018	2019	2020	2020 (unaudited)	2021	2021 (unaudited)
	(in millions of ₱)			(in millions of U.S.\$)	(in millions of ₱)	(in millions of U.S.\$)
Customers' and other deposits.....	319.8	345.6	400.9	8.3	396.2	8.2
Concession fee payable	54,319.1	54,319.1	54,319.1	1,119.0	54,319.1	1,119.0
Other noncurrent liabilities .....	2,471.0	1,842.3	1,767.7	36.4	1,590.0	32.8
<b>Total noncurrent liabilities .....</b>	<b>152,515.5</b>	<b>174,746.8</b>	<b>181,018.7</b>	<b>3,729.0</b>	<b>184,675.8</b>	<b>3,804.3</b>
<b>Current liabilities:</b>						
Trade and other current payables.....	32,338.0	34,563.9	50,931.4	1,049.1	39,762.6	819.5
Current portion of loans payable.....	8,927.6	11,544.9	13,181.5	271.5	14,721.2	303.3
Other current liabilities	8,227.3	8,205.3	9,830.9	202.5	10,656.0	219.5
<b>Total current liabilities .....</b>	<b>49,492.8</b>	<b>54,314.0</b>	<b>73,943.8</b>	<b>1,523.2</b>	<b>65,139.8</b>	<b>1,341.9</b>
<b>Total liabilities .....</b>	<b>202,008.3</b>	<b>229,060.8</b>	<b>254,962.4</b>	<b>5,252.2</b>	<b>249,815.6</b>	<b>5,146.2</b>
<b>Equity</b>						
Capital stock .....	4,149.9	4,149.9	4,149.9	85.5	4,149.9	85.5
Additional paid-in capital .....	77,907.6	77,907.6	77,907.6	1,604.9	77,700.9	1,600.6
Hedging reserve .....	-	-	-	-	-	-
Premeasurements gains (losses) on defined benefit liability.....	1.9	(77.6)	(152.0)	(3.1)	(60.4)	(1.2)
Equity adjustments from common control transactions .....	(73,359.2)	(73,359.2)	(73,359.2)	(1,511.2)	(73,359.2)	(1,511.2)
Retained earnings.....	38,248.0	46,290.1	55,684.9	117.1	60,696.9	1,250.3
<b>Equity Attributable to Equity Holders of the Parent Company ...</b>	<b>46,948.2</b>	<b>54,910.7</b>	<b>64,231.2</b>	<b>1,323.2</b>	<b>69,128.1</b>	<b>1,424.0</b>
<b>Non-controlling interest .....</b>	<b>26,586.5</b>	<b>23,428.1</b>	<b>25,418.5</b>	<b>523.6</b>	<b>28,841.8</b>	<b>523.6</b>
<b>Total equity.....</b>	<b>73,534.7</b>	<b>78,338.9</b>	<b>89,649.7</b>	<b>1,846.8</b>	<b>97,969.9</b>	<b>2,018.2</b>
<b>Total liabilities and equity .....</b>	<b>275,543.0</b>	<b>307,399.7</b>	<b>344,612.2</b>	<b>7,099.0</b>	<b>347,785.6</b>	<b>7,164.3</b>

## SUMMARY STATEMENTS OF CASH FLOWS INFORMATION

	For the years ended December 31,				For the six-month period ended June 30,		
	2018	2019	2020	2020 (unaudited)	2020	2021	2021 (unaudited)
	(in millions of ₱)			(in millions of U.S.\$)	(in millions of ₱)		(in millions of U.S.\$)
Net cash provided by operating activities .....	35,612.9	33,350.5	44,069.1	907.8	11,368.3	3,915.5	80.7
Net cash used in investing activities .....	(33,865.8)	(39,363.1)	(41,610.5)	(854)	(9,234.5)	(9,478.3)	(200.8)
Net cash provided by (used in) financing activities .....	(6,673.1)	8,515.3	(4,290.5)	(88.4)	377.1	1,062.0	21.8

	For the years ended December 31,				For the six-month period ended June 30,		
	2018	2019	2020	2020 (unaudited)	2020	2021	2021 (unaudited)
Effects of exchange rate changes on cash and cash equivalents.....	(68.7)	(113.5)	(102.3)	(2.1)	(181.4)	236.5	4.9
Net increase (decrease) in cash and cash equivalents.....	(4,994.7)	2,389.1	(1,934.2)	(39.8.)	2,329.3	(4,264.3)	87.8
Cash and cash equivalents at beginning of year / period.....	18,621.0	13,626.3	16,015.4	329.9	16,015.4	14,081.2	290.1
Cash and cash equivalents at end of year / period.....	13,626.3	16,015.4	14,081.2	290.1	18,344.8	9,816.9	202.2

## SUMMARY OF SELECTED OPERATING AND FINANCIAL INFORMATION

	As of and for the years ended December 31,			As of and for the six months ended June 30,	
	2018	2019	2020	2020	2021
Net Income (P millions)	20,945.0	20,020.2	23,435.8	11,381.0	12,499.1
<b>Attributable to:</b>					
Equity holders of the Parent Company	8,407.7	8,042.1	9,394.8	4,558.3	5,012.1
Non-controlling interests	12,537.2	11,978.1	14,041.0	6,822.7	7,487.0
Revenues – net	45,402.0	45,396.5	48,606.6	24,183.1	24,186.2
EBITDA <sup>(1)</sup>	35,991.6	36,122.2	39,070.3	19,347.4	20,266.4
EBITDA Margin <sup>(2)</sup>	79.3%	79.6%	80.4%	80.0%	83.8%
Return-on-Assets <sup>(3)</sup>	7.6%	6.5%	6.8%	6.6%	7.2%
Net Income Margin <sup>(4)</sup>	46.1%	44.1%	48.2%	47.1%	51.7%
Total Debt <sup>(5)</sup>	103,278.1	128,168.8	135,685.3	131,931.5	141,205.8
Debt-to-EBITDA <sup>(6)</sup>	2.9x	3.5x	3.5x	3.4x	3.5x

Notes: (1) EBITDA is Net income + Finance Costs + Tax Expense + Depreciation and Amortization.

(2) Calculated as EBITDA / Net Revenue

(3) Calculated as Net Income / Total Assets. In calculating Return on Assets, Net Income for the six months ended June 30, 2020 and June 30, 2021 have been annualized by multiplying the Net Income for the six months ended June 30, 2020 and June 30, 2021 by two.

(4) Calculated as Net Income / Net Revenue

(5) Comprised of loans payable – net of current portion and current portion of loans payable

(6) Calculated as Debt / EBITDA. In calculating Debt / EBITDA, EBITDA for the six months ended June 30, 2020 and June 30, 2021 have been annualized by multiplying the EBITDA for the six months ended June 30, 2020 and June 30, 2021 by two.

### EBITDA Reconciliation

The table below sets forth further information with respect to the computation of EBITDA for the years ended December 31, 2018, 2019 and 2020 and the six months ended June 30, 2020 and 2021:

	For the years ended December 31,				For the six months ended June 30,		
	(Audited)		(Unaudited)	(Audited)	(Unaudited)		
	2018	2019	2020	2020	2020	2021	2021
	(P million)		(US\$ million)	(P million)		(US\$ million)	
Net Income .....	20,945.0	20,020.2	23,435.8	482.8	11,381.0	12,499.1	257.5
Add:							
Finance Cost <sup>(1)</sup> .....	6,640.2	7,261.8	6,556.3	135.1	3,468.8	3,055.8	62.9
Tax expense.....	0.2	1.1	0.8	0.0	0.5	0.2	0.0
Amortization .....	7,903.0	8,157.7	8,406.7	173.2	4,155.3	4,407.3	90.8
Depreciation.....	503.2	681.3	670.7	13.8	341.7	304.1	6.3
<b>EBITDA .....</b>	<b>35,991.6</b>	<b>36,122.2</b>	<b>39,070.3</b>	<b>804.8</b>	<b>19,347.4</b>	<b>20,266.4</b>	<b>417.5</b>

Notes:

(1) Finance costs for the years ended December 31, 2018, 2019 and 2020 and for the six months ended June 30, 2020 and 2021 pertain to interest expense.

### Key Operating Information of NGCP

#### Power Transmission Network

	As of June 30, 2021			
	Transmission Line (CKM)	Substations	Substation Capacity (MVA)	Capacitor and Reactor Installations (MVAR)
Luzon	9,499	68	29,831	3,703
Visayas	5,379	43	5,724	872
Mindanao	5,855	34	6,141	453
<b>Total</b>	<b>20,732</b>	<b>145</b>	<b>41,696</b>	<b>5,027</b>

The table below sets out the contribution of regulated services and excluded services to total revenues for the period presented.

	For the year ended December 31,				For the six months ended June 30,			
	2018	2019	2020		2020	2021		
	(in millions)					(in millions)		
	P		U.S.\$		P		U.S.\$	
<b>Regulated Services</b>								
Power Delivery Services.....	40,982.1	40,885.8	44,128.8	909.0	21,920.5	21,937.8	451.9	
System Operation Services*.....	2,681.4	2,774.3	2,740.7	56.5	1,399.6	1,380.7	28.4	
	170.8	179.5	182.1	3.8	89.3	94.0	1.9	
Metering Services	43,834.3	43,839.6	47,051.6	20.0	23,409.4	23,412.5	482.2	
<b>Excluded Services .....</b>	<b>1,567.7</b>	<b>1,556.9</b>	<b>1,555.0</b>	<b>32.0</b>	<b>773.7</b>	<b>773.7</b>	<b>15.9</b>	
<b>Revenues .....</b>	<b>45,402.0</b>	<b>45,396.5</b>	<b>48,606.6</b>	<b>1,001.3</b>	<b>24,183.1</b>	<b>24,186.2</b>	<b>498.2</b>	

\*Excluding ancillary services. NGCP does not earn revenue in the contracting of ancillary services. Ancillary services costs are direct pass-through costs to customers benefitting from ancillary services.

The table below sets out the contribution of each of the three Main Grids to NGCP's revenues for the periods indicated.

	For the year ended December 31,					For the six months ended June 30,				
	2018	2019	2020 <sup>(1)</sup>			2020 <sup>(1)</sup>	2021 <sup>(2)</sup>			
	(in millions)					(in millions)				
	₱		U.S.\$	%	₱	U.S.\$	%			
Luzon Grid	31,883.0	33,488.4	35,846.5	738.4	73.7	17,791.5	17,843.4	367.6	73.8	
Visayas Grid	6,551.0	5,503.4	5,896.8	121.5	12.1	2,959.0	2,935.7	60.5	12.1	
Mindanao Grid	6,968.0	6,404.7	6,863.3	141.4	14.1	3,432.6	3,407.1	70.2	14.1	
<b>Total</b>	45,402	45,396.5	48,606.6	1,001.3	100.0	24,183.1	24,186.2	498.2	100.0	

Notes: (1) Revenues for each of the Luzon, Visayas and Mindanao Grids excluding the allocation of accrued incremental iMAR based on actual billings was ₱33,661.6 million, ₱5,537.4 million and ₱6,445.0 million, respectively, for year ended December 31, 2020, and ₱16, 119.1 million, ₱2,680.9 million and ₱3,109.9 million, respectively, for the six months ended June 30, 2020.

(2) Revenues for each of the Luzon, Visayas and Mindanao Grids excluding the allocation of accrued incremental iMAR based on actual billings was ₱16, 639.9 million, ₱2,737.7 million and ₱3,177.3 million, respectively, for the six months ended June 30, 2021.

## RISK FACTORS

*An investment in the Offer Shares involves a number of risks. You should carefully consider all the information contained in this Prospectus, including the risk factors described below, before deciding to invest in the Offer Shares. The occurrence of any of the following events, or other events not currently anticipated, could have a material adverse effect on the Group's business, prospects, financial condition, results of operations, the market price of the Offer Shares and the Group's ability to make dividend distributions to shareholders. All or part of an investment in the Offer Shares could be lost. The price of securities can and does fluctuate, and any individual security is likely to experience upward or downward movements and may even become valueless. There is an inherent risk that losses may be incurred rather than profit made as a result of buying and selling securities. The past performance of the Group is not a guide to future performance and results. There may be a large difference between the buying price and the selling price of the Offer Shares. For investors that deal in a range of investments, each investment carries a different level of risk.*

*This section does not purport to disclose all of the risks and other significant aspects of investing in the Offer Shares. The risks described below are not the only risks facing the Group. Additional risks and uncertainties not currently known to the Group or those that the Group currently views to be immaterial may also materially and adversely affect the Group's business, financial condition or results of operations. Investors should undertake independent research and study the trading of securities before commencing any trading activity. You should seek professional advice if you are uncertain of, or have not understood, any aspect of this Offer or the nature of risks involved in purchasing, holding and trading the Offer Shares. You should consult your own counsel, accountant and other advisors as to the legal, tax, business, financial and related aspects of an investment in the Offer Shares.*

*The means by which the Group intends to address the risk factors discussed herein are principally presented under "Description of the Issuer" beginning on page 168, "Description of NGCP and the Business of NGCP" beginning on page 174, "Management's Discussion and Analysis of Financial Condition and Results of Operations" beginning on page 91, "Industry Overview" beginning on page 123 and "Directors and Management" beginning on page 245 of this Prospectus. In addition, certain risk factors discussed below provide references to specific sections elsewhere in this Prospectus wherein the such risks may primarily be addressed.*

*The risk factors discussed in this section are of equal importance and are separated into categories for ease of reference only. The order in which risks are presented is not necessarily an indication of the likelihood of the risks actually materializing, of the potential significance of the risks or of the scope of any potential harm to the Group's business, results of operations, financial condition and prospects.*

### RISKS RELATING TO THE ISSUER

#### **The Issuer is a holding company and depends on dividends and distributions from NGCP**

SGP is a holding company and conducts no significant business operations. NGCP is the sole operating asset of SGP, which SGP holds through its direct and indirect shareholdings in the Intermediate Holding Companies (as defined below). As of the date of this Prospectus, SGP indirectly controls 60% of the outstanding capital stock of NGCP through its subsidiaries, OneTaipan Holdings, Inc. ("**OneTaipan**") and Pacifica21 Holdings, Inc. ("**Pacifica21**"). In particular, OneTaipan indirectly holds an equity interest of 30% plus one share in NGCP through its wholly-owned company, Monte Oro Grid Resources Corporation ("**Monte Oro**") and Pacifica21 indirectly holds an equity interest of 30% minus one share in NGCP through its wholly-owned company, Calaca High Power Corporation ("**Calaca**") (each of OneTaipan, Pacifica21, Monte Oro and Calaca, are collectively referred to as the "**Intermediate Holding Companies**", and together with NGCP, the "**Consolidated Subsidiaries**"). The effective equity interest of SGP in NGCP, through OneTaipan and Pacifica21, is 40.2%. "*Description of the Issuer—History and Corporate Structure of SGP*" on page 168.

SGP expects to depend upon the dividends and distributions from NGCP for almost all of its cash flow. Most of SGP's assets are held by, and almost all of its earnings and cash flows are ultimately attributable to NGCP. As a holding company, the Issuer's income, on a standalone basis, is derived primarily from dividends and distributions from NGCP. The Issuer's liquidity, ability to pay expenses, and meet obligations, are dependent upon the flow of funds from NGCP through the Intermediate Holding Companies. See "*Dividends and Dividend Policy*" on page 75 for further details on the dividend policies adopted by each member of the Group.

The ability of the Consolidated Subsidiaries to pay dividends to their respective shareholders, and ultimately to SGP, is subject to applicable laws and may be subject to restrictions contained in loans and/or debt instruments of the Consolidated Subsidiaries, and may also be subject to taxes. Currently, the payment of dividends by a

Philippine corporation to another Philippine corporation is not subject to tax. Under Philippine law, dividends may be declared by a corporation's board of directors; however, any stock dividend declaration requires the approval of shareholders holding at least two-thirds of such corporation's total outstanding capital stock. Additionally, Philippine SEC approval is required if the issuance of stock dividends requires an increase in such corporation's authorized capital stock. There can be no assurance that NGCP and the Intermediate Holding Companies will generate sufficient cash flows to pay dividends or otherwise distribute sufficient funds to SGP to enable it to meet its own financial obligations and declare dividends to its shareholders.

In addition, NGCP is subject to certain debt covenants for its existing debt, which may affect the ability of NGCP to declare or pay dividends. Failure to comply with these covenants could result in the debt becoming immediately due and payable. This could affect the NGCP's liquidity and ability to generally fund its day-to-day operations. In the event this occurs, it may be difficult to repay or refinance such debt on acceptable terms or at all. The Concession Agreement provides that NGCP can declare dividends (even without PSALM's consent) if (i) there is no occurrence or continuation of a Concessionaire's Default<sup>1</sup> or an event that might become a Concessionaire's Default with the lapse of time or the giving of notice or both; and (ii) there is no Deferred Payments that remain unpaid or, even if some Deferred Payments are unpaid, the required Financial Tests are met as at the date any dividend is declared or paid. If any of the above conditions is not met, NGCP can declare dividends only with the prior written consent of PSALM. Under the Concession Agreement, "Financial Tests" means that, as of the date a dividend is declared or as of the date a dividend or remittance on account of shareholder loans or advances is made (the "relevant date"), (i) no installment of the Deferred Payments or other Indebtedness shall be in arrears, and (ii) the Debt Service Coverage Ratio as at the relevant date is not less than 1.15.

Any restriction or prohibition on the ability of the NGCP or any of the Intermediate Holding Companies to distribute dividends or make other distributions to SGP, either due to regulatory restrictions, debt covenants, contractual undertakings, operating or financial difficulties or other limitations, could have a negative effect on the Issuer's cash flow and financial condition. Historically, NGCP has declared and paid dividends on a quarterly basis. See "*Dividends and Dividend Policy—Dividend Policy*" on page 76 for further details on the dividend policies of each member of the Group.

**SGP, its cash flows and the determination of SGP's value is primarily dependent on the business and franchise of NGCP.**

NGCP is the sole operating asset of SGP held by the latter through its direct and indirect shareholdings in the Intermediate Holding Companies and, as such, the value and cash flows of SGP is primarily dependent on the business and franchise of NGCP. SGP expects to depend upon the dividends and distributions from NGCP for almost all of its cash flow. Most of SGP's assets are held by, and almost all of its earnings and cash flows are ultimately attributable to NGCP. As a holding company, the Issuer's income, on a standalone basis, is derived primarily from dividends and distributions from NGCP. See also "*The Issuer is a holding company and depends on dividends and distributions from NGCP*" above and "Risks relating to NGCP and its Operations" generally below for further details. See "*Dividends and Dividend Policy—Dividend Policy*" on page 76 for further details on the dividend policies of each member of the Group and "*Description of NGCP and the Business of NGCP—Strengths and Strategies—Strengths*" on page 178 for information on NGCP's strengths generally, including strong cash flow visibility backed by a stable regulated regime.

**The public ownership of the Issuer is currently below 20% prior to the completion of the Offering**

The Share Swap (as described below) resulted in the minimum public ownership ("MPO") of SGP to fall to 0.26%, which is below the 20% MPO requirement of the PSE for backdoor-listed companies such as SGP. See "*The Philippine Stock Market—Amended Rule on Minimum Public Ownership*" on page 280. Under the MPO rule of the PSE, a listed company which becomes non-compliant with the MPO requirement on or after January 1, 2013 shall be suspended from trading for a period of not more than six months ("**Trading Suspension Period**") and shall be delisted if it remains non-compliant after the Trading Suspension Period. Suspended or delisted shares will not be traded on the PSE. In addition, the sale of shares of listed companies that do not maintain the MPO are

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<sup>1</sup> Section 13.01 of the Concession Agreement provides for the following events of default by NGCP: (a) revocation of congressional franchise or other authority to operate; (b) cessation of eligibility to hold a congressional franchise or other authority to operate a public utility; (c) occurrence of a change in control without PSALM's written consent or breach of equity retention; (d) default in making timely payment of any amount payable of the concession fee; (e) material default in the observance or performance of any other covenant; (f) declaration by any party or parties to any material indebtedness to be in default; (g) event of bankruptcy; (h) material misrepresentation or incorrect warranty; and (i) abandonment.

not considered publicly listed for taxation purposes and should, therefore, be subject to capital gains tax and documentary stamp tax.

Pursuant to the Share Swap, new Common Shares were issued to Mr. Henry T. Sy, Jr. (in exchange for his shares in OneTaipan) and to Mr. Robert G. Coyiuto, Jr. (in exchange for his shares in Pacifica21) upon the approval by the Philippine SEC of the Issuer's increase in authorized capital stock on May 28, 2021. As a result of the new issuance of SGP Common Shares to the Principal Shareholders, the public ownership of SGP fell to 0.26%. See "*Description of the Issuer—History and Corporate Structure of SGP*" on page 168.

On May 24, 2021, SGP requested the PSE to grant it a grace period of 12 months (commencing from the date its public ownership falls below the required level or from May 28, 2021) within which to restore its required public share ownership. The PSE suspended the trading of SGP's Common Shares effective on May 31, 2021 and denied the request on the ground that (a) the grace period under its Amended MPO Rule only refers to the extension of the six-month period within which a listed company may restore compliance with the MPO requirement prior to delisting, but does not allow extension of the period prior to imposition of a trading suspension; and (b) PSE cannot allow the continued trading of shares after a company falls below the MPO requirement, as it would result in an incongruous situation where shares listed and traded through the PSE are subject to capital gains tax and documentary stamp tax instead of stock transaction tax (which is the tax payable on transfer of shares through the PSE). On June 29, 2021, SGP appealed the denial on the basis that it was not requesting the lifting of the trading suspension and reiterated its request for a 12-month period to restore its MPO to the level required by PSE. On August 12, 2021, the PSE denied the appeal on the basis that granting the same is inconsistent with, and would have the effect of extending, the period granted by the ERC in its Order dated May 14, 2021 for NGCP to undertake an initial public offering as a mode of complying with the listing and public offering requirement under the Franchise.

To address this, on August 25, 2021, SGP informed the PSE that this Offer is intended to comply with both the PSE's minimum public ownership requirement and the public offering and listing requirement under Section 8 of NGCP's Franchise. Likewise, NGCP informed the ERC on September 3, 2021, that it intends to comply with Section 8 of the Franchise through the follow-on public offer and listing of the shares of SGP, a company listed on the PSE that indirectly controls 60% of NGCP's outstanding capital stock. See "*—NGCP is subject to significant and extensive Government regulation and supervision and its failure to obtain and maintain regulatory licenses and permits could materially and adversely affect the Company's business, results of operations, financial condition and prospects*" below and "*Description of NGCP and the Business of NGCP—Legal Proceedings—ERC Petition to Extend Period for the Listing of the Shares*" on page 215 for further details of the regulatory requirements.

#### **The Issuer is required to maintain a minimum public ownership of 20%**

Pursuant to PSE Circular No. 2020-0076, as a result of the Share Swap, the Issuer is required to maintain an MPO of 20.0% of its total issued and outstanding shares. Listed companies that become non-compliant with the MPO will be suspended from trading for a period of not more than six months and will automatically be delisted if it remains non-compliant with the MPO requirement after the lapse of the suspension period. Suspended or delisted shares will not be traded on the PSE. In addition, the sale of shares of listed companies that do not maintain the MPO are not considered publicly listed for taxation purposes and should, therefore, be subjected to capital gains tax and documentary stamp tax. See "*The Philippine Stock Market—Amended Rule on Minimum Public Ownership*" on page 280.

In the event the Offer is not completed on time or by November 30, 2021, then SGP will be delisted from the PSE and the value of the Shares may be affected and the ease by which the Shares may be traded may be restricted. To address this concern, in the event the Offer cannot be completed before November 30, 2021 due to market conditions or other factors beyond the control of the Issuer, the Issuer will request to PSE to grant an extension of the deadline pursuant to Section 3(1) of the PSE's Minimum Public Ownership Rule.

#### **The Issuer is effectively jointly controlled by Mr. Henry T. Sy, Jr and Mr. Robert G. Coyiuto, Jr., and such Principal Shareholders may exert substantial influence over the Group and their interests may not be aligned with other shareholders**

SGP is controlled by the Principal Shareholders. As of June 30, 2021, Mr. Sy and Mr. Coyiuto beneficially own a total of approximately 99.7% of the issued share capital of the Issuer—Mr. Sy owns 49.93% of SGP and Mr. Coyiuto owns 49.81% of SGP, while the remaining 0.26% is held by the public. Following the completion of the

Offer, and assuming the Overallotment Option is fully exercised, the Principal Shareholders are expected to hold at least 77.8% of the issued share capital of the Issuer and have effective joint control over the Issuer. See “*Principal and Selling Shareholders*” and “*Material Agreements—Joint Control Agreement*.”

The Principal Shareholders are able to exercise significant influence over the Group by virtue of their collective shareholdings in SGP and pursuant to their agreement to consult and confer with one another prior to exercising their respective rights and taking any actions affecting the business, governance and operations of NGCP. See “*Material Agreements—Joint Control Agreement*.” Such control may be exercised by the Principal Shareholders through their voting rights at shareholders’ meetings, including in relation to overall strategic and investment decisions, dividend plans, capital raisings, election of members of the Board of Directors, appointment of senior officers and other significant corporate actions. Moreover, each of Mr. Sy and Mr. Coyiuto may have private interests in other companies and while the respective businesses or activities of their companies do not directly compete with the Issuer’s businesses or activities, there is no assurance that conflicts of interest will not arise in the future. In addition, the interest of the Principal Shareholders as ultimate controlling shareholders of NGCP may differ significantly from or compete with the interests of NGCP, or the interests of SGP’s other shareholders, and there can be no assurance that the Principal Shareholders will not cause the Group or NGCP to take actions that might differ from the interests of other shareholders. To address this, the Group, as a public company, has established a corporate governance framework that is aligned with the rules prescribed by the Philippine SEC to protect the interests of other shareholders. See “*Directors and Management—Corporate Governance Framework*” on page 256.

### **The Issuer and the Group enter into transactions with related parties**

In the ordinary course of business, SGP transacts with its related parties, including NGCP. These transactions have principally consisted of lease agreements, insurance contracts, advances, loans, bank deposits, reimbursement of expenses, management, and administrative service agreements.

While SGP believes that all past related party transactions have been conducted at arm’s length on commercially reasonable terms, these transactions may involve conflicts of interest, which, although not contrary to law, may be detrimental to SGP and NGCP.

To address this, SGP has instituted internal policies with respect to related party transactions and ensures that it is compliant with the policies instituted on transactions involving related parties. Relevant related party transactions are also discussed at the Related Party Committee or Audit and Risk Committees of the companies who oversee such matters. See “*Related Party Transactions*” on page 263 of this Prospectus.

### **RISKS RELATING TO NGCP AND ITS OPERATIONS**

#### **NGCP is subject to significant and extensive Government regulation and supervision and its failure to obtain and maintain regulatory licenses and permits could materially and adversely affect the Company’s business, results of operations, financial condition and prospects**

NGCP operates in a highly regulated environment and all aspects of its operations, from project implementation to transmission charges and revenue structure are subject to extensive regulation by the Government.

On February 28, 2008, NGCP entered into a concession agreement (the “**Concession Agreement**”) with the Power Sector Assets and Liabilities Management Corporation (“**PSALM**”) and the National Transmission Corporation (“**TRANSCO**”), granting NGCP the right to take over and operate TRANSCO’s transmission business for a 25-year period commencing on January 15, 2009, renewable for another 25-year term. Under the terms of the Concession Agreement, TRANSCO retained title and ownership over the transmission assets, intellectual property rights, easements, rights of way and other real estate interests. On December 1, 2008, the Philippine Congress enacted Republic Act No. 9511, granting NGCP a 50-year franchise or until December 19, 2058 to operate and maintain the Grid and related facilities, authority to engage in ancillary business and any related business which maximizes the utilization of its assets and the right of eminent domain necessary to construct, expand, maintain and operate the Grid.

Under the Franchise, NGCP is required to list and make a public offering of at least 20% of its outstanding capital stock within 10 years from the start of operations (or by January 2019). NGCP requested for an extension to comply with this requirement in view of market conditions, among others. In an order by the ERC promulgated on May 14, 2021, the ERC directed NGCP to complete its compliance with the public offering requirement within six months or by November 14, 2021. Failure to comply may subject the Franchise to revocation, and there can

be no assurance that any further extension to comply with this requirement will be granted. However, NGCP filed a Motion for Clarification (of the Order dated May 14, 2021), praying for the ERC to clarify the relevant part of the dispositive portion of the May 14, 2021 Order, and thereby confirm that NGCP can comply with the listing and public offering requirement under the Franchise under the alternative mode of compliance under Section 8 of the Franchise, which provides that “the listing on the [Philippine Stock Exchange] of any company which directly or indirectly owns or controls at least 30% of the outstanding shares of stock of NGCP shall be considered full compliance with this listing requirement.” NGCP believes that this alternative mode of compliance can be achieved through the share swap and through this Offer, which is a follow-on offering of 20% of SGP’s shares.

In an Order dated August 11, 2021 (which NGCP received on August 20, 2021), the ERC resolved the Motion for Clarification stating that “NGCP can undertake public listing or in substitution submit proof of the listing of any company in the PSE which owns or controls at least 30% of its outstanding capital stock.” The Order dated August 11, 2021 stated, among other things, that: (i) “NGCP’s compliance with dispersal of ownership requirement will be determined based on Section 8 of R.A. No. 9511”; (ii) the ERC Order (dated May 14, 2021) “should not be taken as [dis]allowing or prohibiting any mode of ownership dispersal allowed under the law to be undertaken by NGCP”; and (iii) the six-month period provided in the ERC Order remains the same, “thus, the 14 November 2021 deadline set forth in the [ERC Order] is maintained.” On August 25, 2021, SGP informed the PSE that its follow-on offering is intended to comply with both the PSE’s minimum public ownership requirement and the public offering and listing requirement under Section 8 of NGCP’s Franchise. Likewise, NGCP informed the ERC on September 3, 2021, that it intends to comply with Section 8 of the Franchise through the follow-on public offer and listing of the shares of SGP, a company listed on the PSE that indirectly controls 60% of NGCP’s outstanding capital stock. NGCP may be subject to fines or penalties, or its franchise may be subject to revocation, in either case after due notice and hearing, if it fails to comply with Section 8 of the Franchise and the ERC Order of May 14, 2021, as clarified by the ERC Order of August 11, 2021.

However, NGCP’s franchise may only be revoked by an act of Congress or a petition for quo warranto under Rule 66 of the Rules of Court. A revocation of NGCP’s franchise for violation of the public offering requirement will constitute a default under the Concession Agreement. PSALM may terminate the Concession Agreement in case of continuing default by delivering a termination notice to NGCP and acquiring NGCP’s business; and/or (ii) draw on the performance security in an amount equal to 2% of the concession fee.

On the termination date, all transaction documents relating to the Concession Agreement shall automatically terminate without prejudice to any accrued rights and any obligations. PSALM or its nominee shall take over NGCP’s business as a going concern. PSALM or its nominee shall be entitled to eject NGCP from, and take possession of, any or all of the transmission assets (which include the transmission grid, sub-transmission assets, and all buildings, civil works and establishment, plant, machinery, equipment, tools and spare parts used in carrying on the transmission business), and all new projects for the improvement or expansion of the transmission assets then under construction, but without specifically mentioning lands acquired by NGCP after the Concession Agreement.

PSALM or its nominee shall be entitled to purchase any or all of the related businesses of NGCP (or those which maximize the utilization of the transmission assets). Where the related businesses are not acquired by PSALM, PSALM and TRANSCO shall grant to NGCP, subject to the payment of a fee by NGCP and subject to such other terms and conditions as PSALM may require, reasonable rights of access to the transmission assets to enable NGCP to operate or dispose of such related businesses. PSALM shall pay NGCP a recovery payment after taking over NGCP’s business. The recovery payment is the compensation that PSALM’s pays to NGCP for the value of the latter’s business calculated in accordance with the formula set out in the Concession Agreement.

Recovery payment in case of termination of the Concession Agreement due to NGCP’s default shall consist of the sum of: (i) the net present value as of the termination date of the Concession Agreement (“**TD**”) of the estimate future net cash flows of NGCP (“**Net Cash Flows**”) from TD up to full term expiration date (or the 25<sup>th</sup> anniversary of the commencement date of the concession or “**FTD**”), (ii) net present value as at TD of the universal charge to NGCP (“**Net Universal Charge**”) (which includes initial regulatory asset base and total capital expenditure of NGCP as commencement date less depreciation) as of FTD, (iii) net value of the NGCP’s cash, accounts receivable and other current assets less the value of its accounts payable and other current liabilities on TD, and (iv) fair market value as of TD of any related businesses acquired by PSALM, reduced by: (x) outstanding amount of deferred payments plus accrued interest, (y) reasonable, documented transaction costs of PSALM in connection with determination of the recovery payment; and (z) 10% of (Net Cash Flows + Net Universal Charge).

NGCP is authorized to transmit power in the Philippines pursuant to the Concession Agreement, the Franchise and various Government regulations. The Franchise, Concession Agreement, licenses and permits are subject to review, interpretation, modification or termination by the relevant authorities and these may not be renewed on terms commercially acceptable to NGCP, or at all. The relevant government authorities have ultimate discretion over whether licenses or permits will be granted or revoked. The issuance of licenses and permits may also be delayed as a result of restrictions on movement imposed by the Government, such as during community quarantine periods in the course of the COVID-19 pandemic. Any loss or failure to renew, obtain and maintain the Franchise, Concession Agreement, licenses and permits or comply with the terms and conditions of the Franchise, Concession Agreement, licenses and permits, may delay the Company's development and expansions plans, expose it to sanctions or require it to cease providing services and operating the Grid, any of which could materially and adversely affect NGCP's business, results of operations, financial condition and prospects. Moreover, in the event the Concession Agreement is not renewed, NGCP would lose its authority to operate the Grid, which would materially and adversely affect the Group's business, results of operations, financial condition and prospects.

In addition, the Franchise is exposed to political and reputational risks and NGCP is subject to Government inquiries and similar actions from time to time. Moreover, failure to meet the performance standards or non-compliance with the mandates specified in the EPIRA and the Concession Agreement, ERC resolutions and other Government policies may result in penalties and other administrative fines, impact the determination of MAR, and compromise the Franchise and concession to operate the Grid, which could materially and adversely affect the Group's business, results of operations, financial condition and prospects.

See "*Regulatory and Environmental Matters*" on page 222 and "*Description of Permits and Licenses*" on page 217 for further information on compliance with regulation. NGCP intends to continue to comply with regulations, closely coordinate and communicate with its regulators and collaborate with key stakeholders.

**NGCP may incur fines or penalties, or its franchise may be revoked and the Concession Agreement terminated, if it fails to comply with the public offering requirement under its franchise by November 14, 2021**

In an order by the ERC promulgated on May 14, 2021, as clarified by ERC's Order of August 11, 2021, the ERC directed NGCP to complete its compliance with the public offering requirement under Section 8 of the Franchise within six months or by November 14, 2021. NGCP may be subject to fines or penalties, or the Franchise may be subject to revocation, in either case after due notice and hearing, if it fails to comply with the public offering requirement within such period.

A revocation of the Franchise for violation of the public offering requirement will constitute a default under the Concession Agreement. PSALM may terminate the Concession Agreement in case of continuing default by delivering a termination notice to NGCP and acquiring NGCP's business; and/or (ii) draw on the performance security in an amount equal to 2% of the concession fee.

NGCP believes that the Offer can be completed by November 14, 2021 based on the expected timetable set out in the Summary of the Offer. If there is delay and the Offer is not completed by November 14, 2021, NGCP may file a motion with the ERC to seek an extension of such deadline on the ground that key milestones of the Offer have been reached and the SEC has favorably considered the registration statement filed by SGP for the Offer, subject to submission of certain documents and compliance by SGP with certain conditions as stated in the SEC pre-effective letter. However, there can be no assurance that ERC will grant any further extension to comply with the public offering requirement.

**The success of NGCP depends, in part, on factors beyond its control**

The success of NGCP is partly dependent on factors beyond its control. The following factors beyond NGCP's control may unfavorably impact its business and results of operations:

- changes in regulation and actions of regulatory bodies, particularly the ERC and DOE;
- expiration, termination or revocation of significant contracts and concessions, including the Concession Agreement and the Franchise;
- control of NGCP's operating costs and expenses;
- review and adjustment of transmission services charges under the Rules for Setting Transmission Wheeling Rates ("**RTWR**");

- decreases in the availability and demand for power in the Philippines;
- increases of capital costs;
- NGCP's ability to build or expand the Grid within anticipated costs and in a timely manner;
- opposition to power infrastructure development, particularly in environmentally sensitive areas;
- difficulties obtaining the necessary rights of way, easements, and other land rights, particularly in areas where there is ongoing political or civil unrest such as in areas in Mindanao, for expansion projects;
- adverse general economic conditions;
- adverse future weather conditions; and
- relations with the communities in the areas where NGCP operates or expects to develop power transmission facilities.

These and other factors could materially adversely affect the Company's business, results of operations, financial condition and prospects. NGCP closely monitors and adopts the necessary financial, operational and other controls and policies within the context of the prevailing business, economic, and political environment to address these concerns. See "*Description of NGCP and the Business of NGCP*" on page 174.

### **NGCP is subject to regulations covering the setting of transmission rates to be charged its customers**

The ERC, as NGCP's primary regulator, has the role of establishing and enforcing rules and regulations that would promote performance standards, efficiency of operation, implementation of reasonable and non-discriminatory rates while allowing the viable and sustainable operations of the transmission business. Consistent with these mandates under the law, the ERC established the methodology for setting transmission wheeling rates as embodied in the Transmission Wheeling Rates Guidelines, which has been revised as the RTWR. This set of rules govern the implementation of Performance-Based Regulation ("**PBR**") for the transmission business. All transmission charges imposed by NGCP to transmission customers require the prior approval of the ERC.

The RTWR provides for PBR using a revenue cap to regulate the MAR that the regulated entity can earn and 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 also allows the regulated entity to recover the reasonable cost it incurs in providing efficient sub-transmission services to its transmission customers while clearly making a distinction between recovery for regulated transmission services and excluded services. The RTWR also allows the regulated entity to recover pass-through charges in addition to the MAR (such as force majeure pass-through charges) subject to certain requirements and conditions as specified in the rules. To complement this, the Open Access Transmission Services Rules (the "**OATS Rules**") were formulated to establish the methodology covering the translation of approved revenue into rates that the regulated entity imposes on transmission customers.

Pursuant to the provisions of both the RTWR and the OATS Rules, NGCP undertakes the filing of applications, submission of compliance documents and comments, and participates in regulatory proceedings with the ERC, covering, among others, regulatory reset applications, MAR and net performance incentive applications, force majeure event claim applications, and connection charges and residual sub-transmission charges, and capital expenditure applications.

Thus, revenue for a specific time period (the "**Regulatory Period**") is determined by a revenue-setting process known as the regulatory reset process ("**Regulatory Reset Process**"). During the Regulatory Reset Process, NGCP set out its proposed investment plans and revenues for the relevant Regulatory Period for the ERC's approval.

Each Regulatory Period covers five years, and the Regulatory Reset Process involves several submissions to the ERC over the course of around two years. For the 4th Regulatory Reset Process covering 2016 to 2020, NGCP initiated the process in February 2014. In spite of the preliminary activities that were undertaken, the 4th Regulatory Reset Process was not concluded. Thus, in the absence of price and control arrangements, NGCP was constrained to take alternative regulatory measures, and the ERC, in its Order dated December 19, 2016, provisionally granted authority to implement the 2016 interim MAR ("**2016 iMAR**") to guide NGCP in the rate-setting process. The 2016 iMAR of ₱43,789 million was billed by NGCP for each of the years 2016 to 2019. While the ERC has yet to commence the regulatory revenue setting for the 5th Regulatory Period, NGCP filed for 2020 interim MAR ("**2020 iMAR**"). On February 13, 2020, the ERC approved provisionally the 2020 iMAR amounting to ₱47,051 million, which would be subject to adjustment in the next rate-setting process. In an Order dated July 28, 2020, the ERC suspended the implementation of the February 13, 2020 Order on the basis that there was a need to reassess the supply and demand assumptions in the light of economic disruptions brought about by the COVID-19 pandemic. On October 1, 2021, NGCP filed a Reiteratory Motion for

Implementation of the 2020 iMAR with the ERC where it reiterated its request to (1) lift the July 28, 2020 Order on the ground that there has been a significant recovery and increase in demand and energy consumption since that Order was issued; (2) allow 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; (3) allow NGCP to recover the unbilled 2021 iMAR on top of the iMAR for 2022, to be implemented from April 2022 to December 2022; and (4) confirm that the approved 2020 iMAR level of ₱47,051 million 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.

Following the regulatory timeline, the 5th Regulatory Reset Process should have commenced in February 2019. While there has been a delay in the commencement of the reset process, the ERC has started the following activities that are related to a revenue reset review in the first quarter of 2021:

- Actual Performance of NGCP for Years 2016-2018;
- Compliance of NGCP's technical operations;
- Historical/Actual Operating and Capital Expenditures;
- Roll Forward Regulatory Asset Base for the 5th Regulatory Period; and
- Proposed Amendments to the OATS Rules and ASPP.

In view of the ERC's power to approve transmission charges and capital expenditures, NGCP's profitability, financial operations and results of operations could be adversely affected if the ERC does not approve NGCP's application or request for provisional authority in time, or at all, or if the ERC sets rates that would not provide a meaningful return for the Company or its shareholders. Further, NGCP's profitability, financial operations, and results of operations could be adversely affected if its MAR is reduced due to changes in the components use in the calculation of such amount, including any decrease in the NGCP's WACC.

NGCP judiciously undertakes the filing of applications, submission of compliance reports and comments and participates in regulatory proceedings, including actively participating in those proceedings that would set precedents on cases that impact both the transmission business and rates that NGCP bills to its customers. See "*Description of NGCP and the Business of NGCP—Overview of Regulatory Framework—Rate Setting and the Regulatory Reset Process*" for further details and the steps taken in relation to the Fifth Regulatory Period on page 193.

### **The applicable MAR for each concluded Regulatory Period is subject to review and adjustments**

During a Regulatory Reset Process, the amount for the blocks that build the maximum revenue are determined. During the same Regulatory Reset Process, the ERC reviews and evaluates the expenditure performance of NGCP for the just concluded Regulatory Period. Capital and operating expenditure underperformance are scrutinized for prudence and subject to adjustments and possible clawback. For example, to the extent capital or operating expenditure may have been already billed to NGCP's customers and such amounts are determined by the ERC to be inconsistent with the expenditure allowance, there may be a clawback. This process of clawback is defined in the Net Efficiency Adjustment of the RTWR. For example, there was a net negative Net Efficiency Adjustment of ₱6,635.37 million (in respect of performance for the concluded 2nd Regulatory Period), which clawback was included in NGCP's ARR covering the 3rd Regulatory Period (2011-2015). For the 4th Regulatory Period, NGCP believes that a clawback should not arise as there has been no approved level of capital and operating expenditures which shall serve as the benchmark for the prudence review considering that there was no revenue reset undertaken.

NGCP's financial condition and results of operations could be adversely affected if the ERC's review of NGCP's expenditures for a concluded Regulatory Period results in clawbacks or other adjustments. NGCP closely coordinates and communicates with the ERC before, during and after each Regulatory Period to address any queries. See "*Description of NGCP and the Business of NGCP—Overview of Regulatory Framework—Rate Setting and the Regulatory Reset Process*" on page 191.

**The COVID-19 pandemic has caused interruptions, negatively impacted global and regional economic growth and may adversely affect the Company. Further, the continuing impacts of the COVID-19**

**pandemic are highly unpredictable and uncertain and has caused and will continue to cause disruptions in the Philippine and global economy and financial markets**

COVID-19, an infectious disease that was first reported to have been transmitted to humans in late 2019, has spread globally over the course of 2020. On January 30, 2020, the World Health Organization (“WHO”) declared the COVID-19 outbreak a Public Health Emergency of International Concern, and subsequently, a pandemic on March 11, 2020. In response to the pandemic, on March 12, 2020, the Philippine government placed Metro Manila under “community quarantine” starting on March 15, 2020, which, among others, restricted traveling through land, domestic air, and domestic sea from Metro Manila. On the second day of the implementation of the said community quarantine, the Philippine government declared a Luzon-wide “enhanced community quarantine” (“ECQ”) to arrest the continuing effect of the disease. The enhanced community quarantine mandated the temporary closure of all public and private offices, non-essential shops and businesses, prohibited mass gatherings and all means of public transportation, and restricted traveling through air, sea and land in and out of Luzon, except for diplomats and uniformed workers (carrying medical supplies), among others. In line with this, private establishments providing basic necessities, essential services and such other activities related to food and medicine were allowed to continue operations. On April 7, 2020, the Philippine government extended the ECQ period until April 30, 2020, which was further extended to May 15, 2020. After the ECQ was lifted in certain areas, a modified ECQ (“MECQ”), general community quarantine, (“GCQ”) or modified GCQ (“MGCQ”) was implemented. The graduated lockdown schemes from ECQ, MECQ and GCQ, and MGCQ impose varying degrees of restrictions on travel and business operations in the Philippines. The Government continues to calibrate the imposition of lockdown or community quarantine measures across the country depending on the situation in specific localities. On March 27, 2021, following a spike in COVID-19 cases, the Government placed Metro Manila and certain neighboring provinces under ECQ from March 29, 2021 until April 11, 2021. On April 11, 2021, the Government announced that Metro Manila and certain neighboring provinces would shift to MECQ starting April 12, 2021 until April 30, 2021, which was extended through May 15, 2021. On May 13, 2021, the Government announced that Metro Manila and adjacent provinces would shift to GCQ with heightened restrictions until the end of May, which was later extended until the end of June. On July 22, 2021, the Government announced that the entire NCR and certain provinces would be subject to GCQ with heightened restrictions beginning July 23, 2021 until July 31, 2021. On July 29, 2021, the Government announced that NCR will be escalated to the ECQ scheme beginning August 6, 2021 until August 20, 2021, while certain provinces will shift to MECQ, following the spike of new ‘Delta’ variant cases of COVID-19. On September 13, 2021, the IATF has approved the guidelines for a new Alert Level and Granular System to be implemented starting September 16, 2021. This new system shall replace the previous quarantine classifications comprised of ECQ, MECQ, GCQ and MGCQ. Under the new guidelines, the quarantine classifications are composed of five Alert Levels that would determine the activities allowed in cities and/or municipalities. The alert level scheme is characterized as a more relaxed quarantine classification system considering that certain establishments are allowed to operate in limited capacities, age mobility restrictions are imposed, and certain privileges are granted to fully-vaccinated people. The new guidelines also authorize the city and municipal mayors to impose granular lockdowns with respect to their component barangays, including streets, villages, condominiums and other smaller specific areas in a city or town, which are tagged as critical zones or high-risk for COVID-19 by the local government unit.

As of the date of this Prospectus, Metro Manila is under Alert Level 4 until October 15, 2021, subject to further extensions, with other regions under varying levels of quarantine restrictions.

On September 11, 2020, President Rodrigo Duterte signed into law Republic Act No. 11494, otherwise known as “Bayanihan to Recover as One Act” (“**Bayanihan II**”), which extends the emergency powers of the President granted by its predecessor law, Republic Act No. 11469, otherwise known as the “Bayanihan to Heal as One Act” which ceased to be effective on June 25, 2020. Section 4 of the Bayanihan II authorizes the President to exercise powers necessary and proper to undertake and implement COVID-19 response and recovery measures such as directing institutions providing electric, water, telecommunications, and other similar utilities to implement a minimum 30-day grace period for the payment of utilities falling due within the period of ECQ or MECQ, without incurring interests, penalties, and other charges; provided that after the grace period, unpaid residential; micro-, small and medium-sized enterprises; and cooperative utility bills may be settled on a staggered basis payable in not less than three monthly installments, subject to the procedural requirements of the concerned regulatory agencies in the imposition of such installment plan without interests, penalties and other charges. In case of the electric power sector, the minimum 30-day grace period and staggered payment without interests, penalties and other charges will apply to all payments due within the period of community quarantine in the entire electric power value chain to include generation companies, transmission utility and distribution utilities.

On October 29, 2020, the ERC issued an advisory implementing the provisions of Bayanihan II. Under the advisory, distribution utilities are directed not to implement any disconnection on account of non-payment of bills until December 31, 2020 for consumers with monthly consumption not higher than twice the ERC approved maximum lifeline consumption level. For all other customers, distribution utilities and retail electricity suppliers were directed to implement a minimum of 30-day grace period on all payments falling due within the period of ECQ and MECQ without incurring interests, penalties, and other charges. Any unpaid balance after the lapse of the 30-day grace period shall be payable in three equal monthly installments, without incurring interests, penalties, and other charges. Generation companies, PSALM, NPC, TRANSCO, NGCP, independent power producers, IPPAs, and WESM were likewise directed to extend the same no disconnection policy, 30-day grace period, and staggered payment to distribution utilities, retail electricity suppliers and other customers.

The COVID-19 pandemic triggered unprecedented quarantine restrictions locally and across the globe causing massive disruptions in business activities and economies. NGCP'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. The pandemic's impact on people and transport mobility resulted in operational setbacks in project completion and the incurrence of additional costs to comply with safety and health protocols for the prevention and control of COVID-19. NGCP has maintained a stable financial position during this crisis, even donating ₱1.0 Billion to the Government to aid its continuing efforts to help people and communities.

Despite the measures taken by the Government, the generation, transmission and distribution of electricity are considered essential activities, and thus NGCP continues to conduct its business and operations. Nevertheless, travel restrictions imposed in the course of the pandemic have affected the entry to the country of foreign technical experts needed during test and commissioning of transmission projects. In addition, mobilizing personnel, obtaining permits, progressing right-of-way and other expropriation proceedings have been affected by the various community quarantines, resulting in delays in projects.

Moving forward, despite uncertainties and factors beyond its control, the Company remains focused on managing its financial resources enabling it to operate business as usual under COVID-19 conditions. These factors and uncertainties include, but are not limited to:

- the severity and duration of the pandemic, including whether there is a subsequent “wave” or other additional periods of increases or spikes in the number of COVID-19 cases in future periods in areas in which NGCP operates;
- the duration and degree of governmental, business or other actions in response to the pandemic, including but not limited to quarantine, stay-at-home or other lockdown measures as well as measures taken by regulators;
- restrictions on operations, including complete or partial closure of offices, plants and other facilities;
- economic measures, fiscal policy changes, or additional measures that have not yet been effected;
- the health of, and effect of the pandemic on, personnel and the ability to maintain staffing needs to effectively operate power transmission assets and the Grid;
- evolving macroeconomic factors, including general economic uncertainty, unemployment rates, and recessionary pressures;
- impacts—financial, operational or otherwise—on suppliers and third party contractors, particularly for ongoing maintenance and construction of certain transmission projects and other assets;
- volatility in the credit and financial markets during and after the pandemic;
- the impact of any litigation or claims from customers, suppliers, regulators or other third parties relating to COVID-19 or NGCP's actions in response thereto;
- the pace of recovery when the pandemic subsides; and
- the long-term impact of the pandemic on the Company's business and operations.

The above factors and uncertainties, or others of which the Group is not currently aware, may result in adverse impacts to the Company's business, results of operations, cash flows, and financial condition due to, among other factors:

- further delays to expansion of the Grid and maintenance projects, and the timing of the completion of such projects;
- suppliers or contractors claiming force majeure events under their contracts and sharing of additional costs caused by the delay or disruption due to COVID-19 and related Government restrictions;

- delays or inability to access equipment or the availability of personnel to perform planned and unplanned maintenance, which can, in turn, lead to disruption in operations;
- power outages at generation companies (due to maintenance or power plant component failure) resulting in limited generation capacity during system peak load conditions;
- further destabilization of the markets and decline in business activity negatively impacting customers' ability to pay for services when due or at all;
- decline in business activity causing customers to experience declining revenues and liquidity difficulties that impede their ability to pay for services;
- government moratoriums or other regulatory or legislative actions that limit changes in pricing, delay or suspend customers' payment obligations. For example, the ERC allowed certain customers to defer payments of their electric bills due during the ECQ period and amortize such payments over a period of up to four months. NGCP also granted customers' requests for the restructuring of their accounts beyond the required four-month period, especially those experiencing extreme financial difficulties;
- delay or inability to receive the necessary permits for development projects due to delays or shutdowns of government operations;
- increased volatility in foreign exchange and commodity markets;
- deterioration of economic conditions, demand and other related factors; and
- delay or inability in obtaining regulatory actions and outcomes that could be material to the Company's business.

The extent to which the COVID-19 pandemic will continue to impact the Group will depend on future developments, including the timeliness and effectiveness of actions taken or not taken to contain and mitigate the effects of COVID-19, both in the Philippines and internationally by governments, central banks, healthcare providers, health system participants, other businesses and individuals, which are highly uncertain and cannot be predicted. To the extent the COVID-19 pandemic adversely affects the Company's business and financial results, it may also have the effect of heightening many of the other risks described in this Prospectus.

See "*Description of NGCP and the Business of NGCP—Impact of the COVID-19*" beginning on page 176 describing the operations of NGCP in the course of the COVID-19 pandemic and measures it has taken to address the pandemic. As NGCP provides an essential service, its day-to-day operations have not been significantly affected and it has been able to maintain a stable financial position. The Company remains focused on managing its financial resources enabling it to operate under COVID-19 conditions and has implemented various initiatives to protect the workplace, stakeholders, facilities and communities.

**The expansion and improvement of power transmission infrastructure subjects NGCP to construction and other risks that may adversely affect the Company's financial condition and results of operations**

The Company continues to expand and improve the Grid by constructing additional facilities and/or maintaining, upgrading, replacing or expanding existing infrastructure. Construction of these facilities and/or expanding existing infrastructure is subject to various regulatory, developmental and operational risks, including:

- potential changes to national and local statutes and regulations, including environmental requirements that prevent a project from proceeding, increase the anticipated cost of an expansion project or delay its implementation;
- impediments to the ability to acquire rights-of-way, easements or land rights on a timely basis or within anticipated costs;
- the ability to construct projects within anticipated costs, including the risk that the Company may incur cost overruns resulting from inflation or increased costs of equipment, materials, labor, or other factors beyond its control, that may be material;
- the possibility that anticipated future growth in power supply may not materialize;
- the possibility that municipal authorities could impose fines or penalties related to the construction of additional facilities or the expansion of existing facilities or temporarily suspend such construction or expansion;
- the lack of transmission or through-put commitments that result in write-offs of development costs;
- adverse decisions or delays of the ERC with respect to capital expenditure approvals or any future rate review or adjustment applicable to the Company;
- disputes with contractors;
- accidents involving employees or other third parties;
- potential criminal activity such as theft or other malfeasance at construction sites; and

- other delays or increased costs as a consequence of the effects of COVID-19 and the government measures taken as a response to it.

Any of these risks could prevent a project from proceeding, delay its completion or increase its anticipated costs. As a result, new facilities and/or expansion of existing infrastructure may not achieve the expected investment return, which could adversely affect the Company's financial condition or results of operations.

See "*Description of NGCP and the Business of NGCP*" beginning on page 174 describing NGCP's track record of development and execution, power of eminent domain and its suppliers. Suppliers are subject to an accreditation process which is periodically reviewed, and failure to adhere to its policies could result in removal from its list of accredited vendors.

### **NGCP faces challenges in successfully implementing its growth strategy**

Implementing the Company's growth strategy involves substantial investments in expanding the Grid, increasing substation capacity and replacing or upgrading existing assets. In particular, in accordance with the Transmission Development Plan, NGCP has a robust project pipeline from 2021 through 2040.

NGCP's success in implementing its strategy will depend on, among other things, the ability to identify and assess growth opportunities as well as potential partners, the ability to successfully finance, close and integrate investments and relevant technologies for the transmission of power, the ability to manage construction of planned projects within technical, cost and timing specifications, the ability to control costs and maintain sufficient operational, financial and internal controls, the strength of the Philippine economy (including overall growth and income levels), the growth of the relevant target markets, and the overall levels of business activity in the Philippines.

NGCP may also require additional capital to fund any expansion project. If NGCP fails to generate sufficient funds in the future, it may have to delay or abandon potential expansion projects. Also, a potential expansion may cost more than planned to complete and such excess cost may not be recoverable. The inability to recover any such costs or expenditures may affect the Company's financial condition.

In addition, significant portions of NGCP's facilities are located on properties over or through which it has acquired or will have to acquire rights of way pursuant to easements and other types of agreements. Any successful challenge to such rights may adversely affect the Company's operations.

Although NGCP has the right to obtain easements and rights of way and believe that all easements and rights of way were obtained and entered into in material compliance with applicable laws, legal challenges may be brought with respect to the form of documenting such rights of way with the relevant registries, or with respect to the content or priority of such rights, or with compliance with the terms of such easements and agreements, or to claim compensation for damages caused to private property. Any such legal challenge may have an impact on the Company's cash flows, financial condition and results of operations.

Any delays or failure to implement grid expansion projects to accommodate the continuously increasing load and the entry of new power plants, including renewable energy generation, could result in the risk of load curtailment and congestion in the Grid. Such load curtailment or congestion in the Grid could also adversely affect NGCP's ability to support the increased renewable energy generation mix in the Grid. Operational measures such as special grid protection schemes may be implemented to alleviate grid limitations pending the completion of transmission projects. NGCP has also obtained government support under the Energy Virtual One Stop Shop (EVOSS) Law, which primarily aims to streamline the permitting process for power projects including NGCP's transmission expansion and development. Moreover, given the increasing difficulty in securing right-of-way, NGCP files its capital expenditure applications earlier, in order to have a longer lead time for the construction of projects needed by the Grid. In the event that such measures are not effective, the ability of the Grid to accommodate increasing load requirements could be adversely affected.

NGCP's growth strategy will also place significant demands on its management, financial and other resources. In particular, continued expansion will increase the challenges for financial and technical management, recruitment, training and retention of sufficient skilled technical and management personnel and developing and improving the Company's internal administrative infrastructure. Any inability to meet these challenges could disrupt the Company's business and adversely affect its results of operations and financial condition. See also "*The expansion and improvement of power transmission infrastructure subjects NGCP to construction and other risks*"

that may adversely affect the Company's financial condition and results of operations." For further details on the Group's capital expenditures, see "Management's Discussion and Analysis of Financial Condition and Results of Operations—Liquidity and Capital Resources—Capital Expenditures" on page 119. See also "Description of NGCP and the Business of NGCP—Strengths and Strategies" beginning on page 178 describing NGCP's strategies and how these will be implemented, NGCP's strengths including its track record of development and execution and NGCP's power of eminent domain.

### **Continued compliance with, and any changes in, safety, health and environmental laws and regulations may adversely affect the Company's results of operations and financial condition**

In addition to the Franchise and the Concession Agreement, the operations of NGCP's power transmission facilities are subject to a number of national and local laws and regulations, including safety, health and environmental laws and regulations and the Company must obtain various licenses, permits and approvals, particularly from the ERC and the DOE, for the conduct of the Company's business. See "Regulatory and Environmental Matters."

These laws and regulations impose controls on air and water discharges, on the storage, handling, discharge and disposal of waste, location of facilities, employee exposure to hazardous substances, site clean-up, groundwater quality and availability, and plant and wildlife protection. Failure to comply with relevant laws and regulations may result in monetary penalties or administrative or legal proceedings against NGCP and the Group, which may cause or result in the termination or suspension of the licenses or operation of facilities. For example, any project that could be expected to have a significant impact to the quality of the environment is subject to the Philippine Environment Impact Study system, for which an Environmental Compliance Certificate ("ECC") would need to be obtained from the Philippine Department of Environment and Natural Resources ("DENR"), before the project can proceed. See "Regulatory and Environmental Matters—Environmental Laws."

The Company has incurred, and expects to continue to incur, operating costs to comply with such laws and regulations. In addition, the Company has made, and expects to continue to make, capital expenditures on an ongoing basis to comply with safety, health, and environmental laws and regulations.

While NGCP believes that it has materially complied with all applicable laws, rules and regulations, there can be no assurance that it will be able to remain in compliance with applicable laws and regulations or will not become involved in future litigation or other proceedings or be held liable in any future litigation or proceedings relating to safety, health and environmental matters, the costs of which could be material. In addition, safety, health and environmental laws and regulations in the Philippines have become increasingly stringent and non-compliance or the non-renewal of permits and licenses could result in the suspension of the Company's operations.

If NGCP fails to comply with all applicable regulations or the regulations governing its business, NGCP may incur increased costs or be subject to penalties, which could disrupt its operations and have a material adverse effect on the Company's business, financial condition and results of operations. See "Description of NGCP and the Business of NGCP—Strengths and Strategies—Commit to the highest standards of sustainable development and social responsibilities" on page 184 and "Environment, Social Governance and Sustainability Initiatives—Compliance with Environmental Laws" on page 203 for further details on the Company's commitment to sustainable development and compliance with environmental laws to address these concerns.

### **The operations of NGCP are subject to operational hazards, force majeure and uninsured risks**

The operations of the Company are subject to the inherent risks normally associated with the power transmission industry, including equipment failures, explosions, pollution, electrocution, releases of toxic substances, fires, force majeure and catastrophic events including fires, explosions, earthquakes, volcanic eruptions, floods and terrorist acts, vandalism, theft and other hazards, each of which could result in damage to or destruction of its facilities or injuries to persons and damage to property. These include:

- breakdown or failure of transmission lines or other equipment or processes, leading to unplanned outages, suspension of operations, and operational issues;
- performance below expected levels of output or efficiency;
- industrial actions affecting NGCP or counterparties;
- pollution or environmental contamination affecting the operation of power transmission assets;
- planned and unplanned power outages due to maintenance, expansion and refurbishment; and
- injuries and loss of life.

Historically, tropical cyclones have posed the most serious threat to NGCP's operations due to the frequent impact of typhoons (sustained winds of at least 118 kph) experienced annually in the country. The impact of a tropical cyclone on the Company's transmission systems varies depending on the category. On average, the Philippines experiences 20 tropical cyclones per year, causing flash floods, storm surges, and landslides. The strongest tropical cyclone recorded to have made landfall in the country, had winds of up to 195 mph (312 kph).

In 2013, Typhoon Yolanda inflicted serious damage to NGCP's facilities toppling 248 tower and 376 poles, and seriously damaging seven substations, which interrupted the provision of transmission services in the Visayas Grid. In response to the damage caused by Typhoon Yolanda, NGCP has since upgraded the design of its transmission towers to withstand winds of up to 300 kph. NGCP has also developed its Integrated Disaster Action Plan which covers the four phases of disaster continuum: mitigation, preparedness, response, and recovery to address these risks. See "*Description of NGCP and the Business of NGCP—Disaster Recovery Plan and Business Continuity*" on page 204.

In the course of implementing transmission projects, there have been safety incidents at construction sites resulting in injury of contractor's personnel and in some cases, third party injuries. Leading measures such as safety passporting, safety orientation/inspection, and job hazard analysis are in place to mitigate these incidents.

In communities near existing transmission lines, there were cases of electrocution due to unauthorized activities inside right-of-way such as cutting of trees and construction activities. NGCP has responded to these incidents by issuing notice of electrocution hazards to occupant of structures near high voltage lines, installation of warning signages, and public information campaign.

As part of its initiatives to help ensure not only the uninterrupted conveyance of electricity through power lines, but also to prevent electrocution incidents caused by breach of electrical clearance, NGCP lobbied for the enactment of Republic Act No. 11361 or the "Ant-Obstruction of Power Lines Act of 2019." The law imposes strict measures to keep the land beneath, the air spaces surrounding, and the area traversed by power lines, clear of dangerous obstructions. Under this law, NGCP has the right to prevent and remove any obstruction within the power line corridor (i.e., NGCP is authorized to remove or demolish any obstruction or prevent hazardous activities). For further details on safety initiatives to address these risks, see "*Description of NGCP and the Business of NGCP—Occupational Health and Safety*" on page 209.

There is no assurance that any event similar or dissimilar to those listed above will not occur or will not significantly increase the Company's costs. Moreover, any loss from such events may not be recoverable under the Company's insurance policies. Under the RTWR, however, expenditures incurred in the normal course of operation, as long as these are prudently spent, are recoverable costs. Importantly, even expenditures to restore damaged facilities caused by force majeure (natural or manmade) are allowed to be recovered under the RTWR, which would address such risk. The Company's income and cash flows may be adversely affected by any disruption of operations due to any of the foregoing risks. Any of these occurrences could have a material adverse effect on the Company's business, financial condition or results of operations.

### **The operations of NGCP require significant capital expenditure**

The expansion and maintenance of the Grid and other assets require significant capital expenditure. See "*Management's Discussion and Analysis of Financial Condition and Results of Operations—Significant Factors Affecting Results of Operations, and —Capital Expenditures.*"

These capital expenditures are expected to be funded through a combination of internally generated cash flow and external financing sources. Debt financing has mainly funded capital expenditures and refinanced NGCP's indebtedness while internally generated cash flows funded working capital and operational requirements. NGCP has availed of ₱187 billion (U.S.\$3.9 billion) long-term credit commitments from various banks, of which ₱142 billion (U.S.\$2.9 billion) is outstanding as of June 30, 2021, and plans to continue availing of external financing from domestic and foreign banks, denominated in Philippine Peso or other foreign currency, to fund ongoing and planned capital expenditure projects. NGCP closely monitors its indebtedness to ensure such will not breach its financial covenants, Debt to Equity and Debt Service Coverage Ratios. See "*Management's Discussion and Analysis of Financial Condition and Results of Operations—Liquidity and Capital Resources—Indebtedness*" on page 120 of this Prospectus. Although external factors beyond the Company's control such as political, economic, social and pandemic conditions cause local and global disruptions in the equities and debt markets, the Company's stable revenue stream and efficient cost management has enabled it to overcome these challenges.

NGCP's ability to make payments on, and refinance indebtedness, fund working capital and make capital expenditures in the long term, will depend on its future operating performance and ability to generate sufficient cash over the longer term and obtain financing on acceptable terms. This depends on the success of the Company's business strategy and on economic, financial, competitive, market, legislative, regulatory and other factors, as well as the factors discussed in these "Risk Factors," many of which are beyond the control of the Group.

No assurance can be provided that the Company's business will generate sufficient cash flows from operations or that future debt or equity financings will be available to pay debt when due or to fund its other capital requirements or any operating losses. Moreover, NGCP's ability to arrange for and obtain financing will depend on numerous factors, including interest rates and costs related to such financing, general economic and capital markets conditions, credit availability from banks or other lenders, investor confidence, and political and economic conditions in the Philippines. Any refinancing of indebtedness could be at higher interest rates and may require compliance with more onerous covenants, which could restrict the Company's business and could have a material adverse effect on the Company's financial condition and results of operations.

In addition, NGCP is required to seek the ERC's approval for its capital expenditures. In the event that NGCP does not implement the budgeted CAPEX plan, such as under-spending or over-spending, the ERC will review such spending and determine whether such under-spending was a result of certain efficiencies, which yielded savings, or if such over-spending was a result of inefficiencies, which could be subject to clawback if these inefficiencies were not beyond the control of NGCP. As such, NGCP may be penalized for failure to implement the budgeted CAPEX Plan based on the mechanism of the CAPEX Efficiency Adjustment under the Net Efficiency Adjustment provisions set forth in Article IX of the RTWR. For example, during the 3rd Regulatory Period (2011-2015), the ERC penalized NGCP based on the Net Efficiency Adjustment mechanism set forth in the RTWR. Nevertheless, the ERC evaluation of the Net Efficiency Adjustment allows NGCP to submit justifications and due process is observed before any penalties are imposed.

If NGCP does not receive ERC approval for its capital expenditures, does not generate sufficient cash flows, or is unable to secure debt financing on favorable terms in the future, NGCP may be required to delay its capital expenditures, monetize certain assets, restructure existing indebtedness and forgo capital-intensive opportunities, any of which could materially adversely affect the Company's business, results of operations, financial condition and prospects.

Capital expenditures are expected to be funded through a combination of internally generated cash flow and external financing sources. Debt financing has mainly funded capital expenditures and refinanced NGCP's indebtedness while internally generated cash flows funded working capital and operational requirements. NGCP closely monitors its indebtedness to ensure such will not breach its financial covenants, Debt to Equity and Debt Service Coverage Ratios. Although external factors beyond the Company's control such as political, economic, social and pandemic conditions cause local and global disruptions in the equities and debt markets, the Company believes that its stable revenue stream and efficient cost management has enabled it to overcome these challenges. All projects implemented by NGCP as embodied in the Transmission Development Plan were approved by ERC.

**The loss of key suppliers and contractors or their failure to deliver equipment or services in a timely or satisfactory manner or at attractive prices may adversely affect the Company's business**

NGCP relies on third parties for the supply of materials, equipment and services. An adequate and dependable supply of materials for transmission facilities, equipment and services is critical to its ability to deliver high quality services to customers. If suppliers are unable to provide the equipment and services required in a timely or satisfactory manner or if the prices of such materials, equipment or services increase due to lack of supply in the market or greater demand for such materials, equipment or services, NGCP may incur additional costs and delays as it sources supplies from alternative suppliers, which could materially adversely affect the Company's business, results of operations, financial condition and prospects.

In addition, the failure by suppliers to deliver products and services in a timely or satisfactory manner may result in difficulties in delivering services, which could damage the Company's reputation. It may also be difficult or impossible to enforce claims against suppliers (particularly foreign suppliers) and NGCP's ability to recover damages from suppliers who fail to comply with their agreements may be limited.

NGCP also maintains important relationships with key suppliers and service providers and have engaged with a diversified base of suppliers. See "Description of NGCP and the Business of NGCP—Suppliers" on page 206. In such cases where the Company has made substantial investments with a particular supplier, it may be difficult and costly to quickly replace such supply or service relationships in the event that such supplier refuses to offer

favorable prices or ceases to produce equipment or provide the services or support that is required. Upon the expiration of any supply agreements, the Company's ability to renew or enter into new contracts with existing or other suppliers on commercially attractive terms, or at all, will depend on a range of commercial and operational factors and events which may be beyond the Company's control. As a result of the foregoing, the Company's ability to provide transmission services could potentially be disrupted and the failure to obtain alternative sources may likewise disrupt operations, projects and hinder the ability to generate revenues.

Moreover, supply chains may be disrupted by the general economic effects of epidemics, such as COVID-19. In the course of the COVID-19 pandemic, there were limited product shipments into and out of China and other countries, which delayed the delivery of some of its supplies. During the imposition of quarantine measures in the Philippines, while NGCP ensures timely settlement of its payment obligations on its due dates, there were certain suppliers and contractors who requested for earlier payments. In line with the spirit of the Bayanihan Act, NGCP endeavored to accommodate requests for earlier payment based on the reasonableness of the request and the extent of milestone delivery or project implementation. A future global or regional epidemic or other crisis may reduce the Company's access to the supplies needed to operate the Company's business or result in suppliers suffering liquidity problems or financial difficulties and ceasing to deliver supplies or honoring warranties under agreements, which could materially adversely affect the Company's business, results of operations, financial condition and prospects.

NGCP believes that it is not dependent on a limited number of suppliers for its business operations and sources equipment and materials from different continents such as US, Europe, and Asia to ensure supply chain continuity. Suppliers are subject to an accreditation process which is periodically reviewed, and failure to adhere to its policies could result in removal from its list of accredited vendors. See "*Description of NGCP and the Business of NGCP—Suppliers*" on page 206.

#### **NGCP may be involved in legal and other proceedings from time to time**

From time to time, NGCP may be involved in disputes with various parties and may be adversely affected by complaints, investigations and litigation from customers or regulatory authorities, including the ERC, resulting from the operation of the Grid, illness, injury or other safety concerns or other issues stemming from the Grid and other services in the ordinary course of business. Regardless of the outcome, these disputes and investigations may lead to legal or other proceedings and may result in substantial costs and the diversion of resources and management's attention. In addition, NGCP may have disagreements with regulatory bodies in the course of operations, which may subject it to administrative and other legal proceedings and unfavorable decisions that may result in penalties, or other liabilities. Legal proceedings may also be instituted against NGCP which may lead, subject to compliance with due process requirements, to the revocation of its Franchise. For example, there is a pending arbitration before the SIAC between and among NGCP, PSALM and TRANSCO arising from the implementation and interpretation of the Concession Agreement. See "*Description of NGCP and the Business of NGCP—Legal Proceedings—Civil Cases and Arbitration Proceedings*" on page 210. Any of these outcomes could materially adversely affect the Company's, financial condition and results of operations.

NGCP has a dedicated internal team of lawyers that monitor and exclusively handle its regulatory and tax cases, and other regulatory matters before the ERC. NGCP engages external counsel to represent and handle criminal and civil cases. The Office of the General Counsel regularly monitors all these proceedings. In respect of right-of-way cases relating to NGCP's exercise of eminent domain, a Right-of-Way Department was created to handle and monitor such cases to acquire private properties necessary to undertake and complete the various transmission projects of the Company.

#### **The Grid and NGCP's systems are vulnerable to cybersecurity breaches and other similar disruptive problems**

Information and processing systems are vital to the Company and ability to monitor the operation and performance of the Grid, to generate adequate invoices to customers, achieve operating efficiencies and meet service targets and standards. NGCP is subject to cybersecurity risks, including unauthorized access to privileged information, technological assaults on its infrastructure aimed at stealing information, fraud or interference with regular service and interruption of its services resulting from the exploitation of these vulnerabilities. NGCP has transitioned a significant subset of employees to a remote work environment in an effort to mitigate the spread of COVID-19, which may exacerbate certain risks to the Company's business, including an increased demand for information technology resources, increased risk of phishing and other cybersecurity attacks. Any failure to anticipate, identify or offset such threats of potential cyberattacks or breaches of its security in a timely manner could materially and adversely affect the Company's operations, results of operations and financial condition.

To address this, NGCP continuously implements a number of cyber security programs aimed at strengthening its cybersecurity posture. Aside from having system redundancies, NGCP is also maintaining independent secure networks for corporate systems and operational systems to easily contain possible cybersecurity incidents. NGCP is also certified by TUV to be compliant with the ISO 27001 international standard on managing information security for both corporate and operational systems. Moreover, being a critical infostructure, NGCP is subject to annual external vulnerability assessment drills as mandated by DICT. In addition, NGCP has implemented a Cybersecurity Plan and Roadmap for 2021 to 2025 to establish more robust cybersecurity controls on applications pertaining to critical data of the business. See “See “*Description of NGCP and the Business of NGCP—Data Protection and Cybersecurity*” on page 204.

### **Any deficiency in NGCP’s billing and credit control processes, IT systems and customer management policies could materially and adversely affect operations and financial condition**

Reliable billing, credit control, collection and customer management systems are critical to the Company’s ability to monitor potential credit problems and bill customers accurately and in a timely manner, the failure of which could affect the Company’s business, results of operations and financial condition. NGCP will need to continue to calibrate and adapt its billing and credit control systems as the Company’s business continues to grow, and the expansion of the Company’s business may impose a greater burden on its systems and may strain its administrative, operational and financial resources.

NGCP’s billing, credit control, collection and customer management systems may be affected by computer viruses, cyber-attacks, software flaws and systems failures, human error in managing or operating software systems, and increased operational load as a result of an increase in the scale of operations. Any deficiency in billing, credit control, collection and customer management systems, credit fraud, or delays in upgrades or integration of new systems could materially adversely affect the Company’s business, results of operations, financial condition and prospects.

To address concerns in billing and credit control, NGCP continues to calibrate and adapt its billing and credit control systems. For credit control, collection and customer management, regular reconciliation and interface with customers are conducted to ensure accuracy of records and to immediately resolve customer’s concerns, if any. Further, all NGCP customers are required to comply with the OATS Rules on posting of security deposit.

To address concerns regarding its IT systems, NGCP has implemented risk mitigation measures to ensure that critical corporate systems are reliable and available 24x7. NGCP has a quality assurance team within its IT department that ensures that all systems are fully tested and conforming to specifications prior to live users deployment. NGCP also has a change management process that requires full simulation and testing prior to implementation of any system enhancement. In addition, the Company’s servers are protected with deep security tools that detects any unauthorized attempts preventing further system access. See “*Description of NGCP and the Business of NGCP—Information Technology*” on page 203.

### **NGCP relies on third-party licenses and other intellectual property arrangements**

NGCP relies on third-party licenses and other intellectual property arrangements to enable the Company to carry on its business. Certain of NGCP’s transmission facility materials and equipment, including hardware, software and firmware deployed on its network are licensed or purchased from various third parties, including from vendors holding the intellectual property rights to these elements and equipment. There can be no assurance that other providers or other third parties will not challenge or circumvent the intellectual property rights licensed by NGCP or that such intellectual property rights are valid, enforceable or sufficiently broad to protect NGCP’s interest or will provide it with any competitive advantage. Any loss or withdrawal of those intellectual property rights could affect NGCP’s ability to provide its services. NGCP has implemented a Cybersecurity Plan and Roadmap for 2021 to 2025 to establish more robust cybersecurity controls on applications pertaining to critical data of the business.

To guarantee its continuous use of software licenses, NGCP maintains an MSA (maintenance service agreement) with the relevant vendor. For critical software such as SAP and Microsoft, NGCP is also getting an annual enterprise (premium) support to ensure that the Company has continuous priority vendor support. See “*Description of NGCP and the Business of NGCP—Information Technology*” on page 203. NGCP is not reliant on patent and trademark registration since it is a public utility, and the success of business operations does not rely on patented products or processes, or any other business output requiring protected intellectual property rights.

**Intellectual property claims by third parties or NGCP’s failure to protect its intellectual property rights could diminish the value of its brand and weaken its competitive position**

NGCP has registered certain intellectual property rights relating to certain of logos and website domains. NGCP’s website domains are registered with dotPH, which is the official domain registrar of the Philippines. However, dotPH can re-assign the domain if there is a violation of trademark or copyright infringement. See “*Description of NGCP and the Business of NGCP—Intellectual Property*” on page 208 of this Prospectus. NGCP believes that its trademarks and other proprietary rights have significant value and are important to identifying its services. There can be no assurance that the steps taken to protect intellectual property rights are adequate and that third parties will not assert rights in, or ownership of, the NGCP name, trademarks and other intellectual property rights. The costs of defending and enforcing intellectual property rights may cause the Company to incur significant time and legal expense, and the Company may not be entirely successful in protecting and enforcing such rights. If NGCP is unable to obtain and maintain its intellectual property rights, the value of NGCP’s brand could be diminished and competitive position could be affected, which, in turn, could materially and adversely affect the Company’s, financial condition, results of operations and prospects, as well as its reputation.

To address this, NGCP monitors registrations to ensure that these remain current.

**NGCP is subject to the risk of fluctuations in foreign currency exchange rates**

NGCP’s sales and debt financing are denominated in Philippine Peso, while purchases on certain power transmission materials and equipment are in currencies other than Philippine Peso, particularly the U.S. dollar. In 2020, approximately 40% of NGCP’s payments (e.g., capital and operating expenditures) were denominated in foreign currency. The movements in exchange rates between the Philippine Peso and U.S. dollar could have an adverse effect on its results of operations and financial condition. NGCP does not maintain open positions. See “*Management’s Discussion and Analysis of Financial Condition and Results of Operations—Liquidity and Capital Resources—Foreign Currency Exchange Risk*” on page 122. 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.

**NGCP may be unable to attract and retain key personnel, directors, managers, employees and other individuals without whom it may not be able to effectively manage its business**

NGCP depends on the availability and continued service of directors and senior management as well as consultants and engineers. These key individuals are heavily involved in the daily operation of the Company’s business and are, at the same time, required to make strategic decisions, ensure their implementation and manage and supervise NGCP’s development. The loss of some of these key individuals could significantly impede NGCP’s financial plans, product development, Grid expansion, marketing and other plans. The future operating results of NGCP depend, in a significant part, upon the continued contributions of senior management, and the ability to expand the senior management team by adding highly skilled new members, who may be difficult to identify and recruit. If some of NGCP’s senior executives or other key individuals cease their employment or engagement with the Company, or if NGCP fails to attract and retain highly skilled and qualified personnel across or continue to successfully expand, train, manage and motivate its employee base, the Company’s, financial condition, results of operations and prospects could be materially adversely affected.

To address this and to continue to attract and retain members of the management team and employees, NGCP offers competitive salary and benefits packages and encourages employees to join relevant management training programs. Talent management initiatives are in place at different levels of the organization. For leadership positions, performance and potential evaluation tools are used by management teams to identify capable and high-potential employees. These employees, in turn, are developed through various approaches (training, coaching by their leaders, and on-the-job, e.g. special projects and cross-training) to prepare them for future roles. See “*Description of NGCP and the Business of NGCP—Human Resources*” on page 207.

**The majority shareholders of NGCP may exert substantial influence over NGCP, their interests may not be the same as those of other shareholders and possible disagreements may arise among NGCP’s major shareholders**

SGP indirectly controls 60% of the outstanding capital stock of NGCP through OneTaipan (which owns 100% of Monte Oro) and Pacifica21 (which owns 100% of Calaca). NGCP’s direct shareholders are Monte Oro, Calaca, and State Grid International Development Limited, a wholly owned subsidiary of the State Grid Corporation of China (“SGCC”). SGCC, through State Grid International Development Limited, owns 40% of the outstanding

capital stock of NGCP. As major shareholders of NGCP, Monte Oro, Calaca and SGCC are able to exercise significant influence over NGCP through their voting rights at NGCP's shareholders' meetings, including in relation to major policy decisions such as overall strategic and investment decisions, dividend plans, capital raisings and other financings, mergers and disposals, election of members of its Board of Directors, appointment of senior officers and other significant corporate actions, and they may have possible disagreements. Cooperation among NGCP's shareholders on business decisions is crucial to the sound operation and financial success of NGCP. While SGP and the Principal Shareholders believe that they maintain a good relationship with SGCC, there can be no assurance that these relationships will be sustained or that problems will not arise in the future. For instance, SGCC is a Chinese state-owned entity and the Philippines has from time to time been involved in geopolitical disputes with China. See "*Risks Relating to the Philippines—Territorial disputes with China and a number of Southeast Asian countries may disrupt the Philippine economy and business environment.*" Failure of NGCP's shareholders to maintain good relationships within the Group and with SGCC may cause NGCP's businesses to be severely disrupted, which could have a material adverse effect on the Group's business, financial condition, and results of operations. Moreover, the interest of the Principal Shareholders of SGP as the ultimate controlling shareholders and SGCC may differ significantly from, or compete with, one another, and the interests of NGCP's other shareholders, and there can be no assurance that NGCP's major shareholders will not cause NGCP to take actions that might differ from the interests of NGCP.

NGCP shareholders maintain good working relationships based on cooperation and transparency on business decisions, which contributes to the sound operation and financial success of NGCP. SGP believes that it maintains a good relationship with SGCC, and that there is no reason to believe that this good working relationship will change. Since 2009, there has been no major disagreement between SGCC and the stockholders of Calaca and Monte Oro. Moreover, SGCC, as the "minority" shareholder, has certain protections under the law. For example, certain fundamental corporate actions require the affirmative vote of stockholders holding at least 2/3 of the outstanding capital stock.

#### **NGCP may be involved in tax audits or investigations from time to time which may result in the assessment of additional tax liabilities**

From time to time, NGCP may be subject to routine or special tax and audit processes and investigations by regulatory bodies such as the BIR in relation to taxes in connection with its operations. Furthermore, such audits may require the production of certain documents which may no longer be available because of the length of time since such documents were executed or prepared. Any adverse finding resulting therefrom may lead to administrative proceedings and the assessment of additional tax liabilities or result in fines or penalties.

Tax audits may lead to legal or other proceedings to contest such assessments, where warranted, and may result in substantial costs and the diversion of resources and management's attention. There can be no assurance that the outcome or results of these proceedings will not materially harm the Company's or reputation. Further, there can be no assurance that provisions made for the losses relating to these disputes and claims will be sufficient to cover the amounts finally determined to be due.

As to the real property of NGCP, although NGCP is exempt from payment of real property tax, there are still local government units that continue to issue tax assessments on its real properties. NGCP believes that any potential real property tax liability will not be significant and material. See "*Description of NGCP and the Business of NGCP—Legal Proceedings—Tax Cases*" on page 213. NGCP has a dedicated internal team of lawyers that monitor and exclusively handle its regulatory and tax cases, and other regulatory matters before the ERC. The Office of the General Counsel regularly monitors all these proceedings. Moreover, NGCP timely submits data and documents requested by the BIR to facilitate the review of the Company's books and records and regularly coordinates with the BIR to immediately address any queries and requests.

#### **Labor disputes or changes in employment laws may disrupt operations**

NGCP generally considers its labor relations to be good and harmonious. However, there can be no assurance that it will not experience future disruptions to operations due to labor disputes or other issues with employees, which could materially adversely affect the Company's, results of operations, financial condition and prospects.

Various labor laws govern NGCP's relationship with employees and affect operating costs. These laws include minimum wage requirements, mandatory health benefits, overtime compensation, and other terms and conditions of employment. These and significant changes in labor regulations, for example, in respect of outsourcing services to third-party contractors, could materially affect the Company's, financial condition, operating results or cash

flow. Engagement of third-party service providers carries certain inherent risks, including potential actions from employees of third-party service providers who may claim an employee-employer relationship with NGCP and the risk that third-party contracting arrangements in place may be found by the DOLE to be “labor-only contracting”, which could have a significant impact on labor costs. NGCP is also exposed to litigation risk from employees of its various third-party contractors, who may implead NGCP as party to their labor cases and labor disputes against these third-party contractors. The Company believes that for those pending labor actions, the claims involved are not significant. See “*Description of NGCP and the Business of NGCP—Human Resources*” on page 207.

**NGCP’s insurance policies may be insufficient or NGCP may experience a delay between an insured loss occurring and being compensated by insurers**

NGCP maintains a number of different types of insurance policies to cover its operations and assets. NGCP does not carry insurance in respect of certain risks that it believes are not customary industry practice in the Philippines, such as business interruption insurance. If the Company suffers a significant uninsured loss or if an insurance claim in respect of the subject matter of insurance is not accepted or any insured loss suffered by it significantly exceeds the insurance coverage, the Company’s and financial performance could be impacted.

The Company’s insurance coverage is subject to various limitations and exclusions, retention amounts and limits. Material losses in excess of insurance proceeds may arise in the future. If a loss arises that is covered by insurance, there may be a time delay between the loss occurring and the insurer making a payment. Furthermore, if any of NGCP’s insurance providers becomes insolvent, NGCP may not be able to successfully claim payment from such insurance provider. Moreover, NGCP’s insurance policies and terms of coverage will be subject to renewals and negotiations on a periodic basis and there is no assurance that adequate insurance coverage will be available on commercially reasonable terms in the future. Any risk that is not adequately covered by insurance or any material increase in insurance rates, decrease in available coverage or any failure to maintain adequate insurance in the future could impact the Company’s and financial performance. See “*Description of NGCP and the Business of NGCP—Insurance*” on page 209 for further information on the insurance obtained by the Company. In addition, under the RTWR, expenditures incurred in the normal course of operation, as long as these are prudently spent, are recoverable costs. Importantly, even expenditures to restore damaged facilities caused by force majeure (natural or manmade) are allowed to be recovered under the RTWR, which would help manage such risk.

**A downturn in the domestic, regional or global economy may adversely affect NGCP**

NGCP is exposed to risks associated with any future downturn in the domestic, regional or global economy. There can be no assurance that economic performance, whether globally or in the Philippines, can or will be sustained in the future. Any future global downturn, such as that experienced from 2008 to 2011, could have a material and adverse effect on NGCP’s, financial condition, results of operations and prospects.

The global economic downturn resulting from the COVID-19 pandemic may have an adverse impact in the Philippines’ macroeconomic indicators, such as employment, consumer confidence, disposable income, private spending and business transactions. Since the outbreak of COVID-19, several companies were closed temporarily for precautionary reasons or closed permanently, which have led to a decrease in economic activity in the Philippines. The Group cannot foresee when the disruptions of business activities caused by the outbreak of COVID-19 will cease. See “*—Risks relating to the Philippines—Public health crises or outbreaks of diseases could have an adverse effect on economic activity in the Philippines, and could materially and adversely affect the Company’s, financial condition and results of operations.*”

In addition, a loss of investor confidence in the financial systems may cause increased volatility in the financial markets and a slowdown in economic growth or economic contraction in the Philippines. Any such increased volatility or slowdown could reduce the demand for the Company’s services, which could materially adversely affect the Group’s, results of operations, financial condition and prospects.

**NGCP operates the nationwide transmission of electricity and being the sole provider of this basic necessity, NGCP has been able to maintain its stable financial performance and operations regardless of disruptions in the economy. Changes in regulations or user concerns regarding privacy and protection of user data, or any failure to comply with such laws, could adversely affect NGCP**

Legislation such as Republic Act No. 10173 and its implementing rules and regulations (the “**Data Privacy Act**”) aim to protect individual privacy. The rules apply to the processing of personal data in the public and private sectors, as well as to acts done or practices engaged in and outside of the Philippines under certain conditions.

From 2018, the National Privacy Commission (the “NPC”), has gradually shifted its focus from campaigning for Data Privacy Act awareness to compliance checks on entities engaged in personal data processing. Personal data breaches and other controversies relating to the unauthorized processing of personal data both within the Philippines and abroad have also increased public scrutiny on the activities of entities engaged in personal data processing.

Any failure, or perceived failure, by NGCP to make effective modifications to its policies, or to comply with any privacy, data-retention or data-protection-related laws, regulations, orders or industry self-regulatory principles, including the Data Privacy Act, could result in proceedings or actions by governmental entities or others, loss of user confidence and damage to its reputation, any of which could potentially have a material adverse effect on the Company’s business. NGCP may also be required to incur further expenditure to put in place more advanced security systems to protect its network and systems. See “*Description of NGCP and the Business of NGCP—Data Protection and Cybersecurity*” on page 204. NGCP has systems in place that require personal information controllers and processors to comply with statutory obligations in respect of data protection. NGCP also seeks to ensure that the processing of personal data is performed only after appropriate consent has been obtained from the data subject.

### **NGCP’s natural monopoly for power transmission may be adversely affected by regulatory, technological or other changes in the industry**

The power transmission business in the Philippines, being a natural monopoly of a utility service, is regulated by the ERC under the PBR. The profitability of this business depends on the ERC, the MAR and efficiency in operations, among others. As the regulator, the ERC plays the pivotal role of establishing and enforcing rules and regulations that would promote performance standards, efficiency of operations, and implementation of reasonable and non-discriminatory rates, while allowing the viable and sustainable operations of the transmission business. In addition, if regulatory or technological changes make it possible for the power transmission industry to evolve from its present condition as a natural monopoly into a competitive business, its financial condition, results of operations and prospects could be materially adversely affected. There is no assurance that future developments in regulations and technology will not introduce competition which would erode the natural monopoly the NGCP currently benefits from. See “*Description of NGCP and the Business of NGCP—Competition*” on page 207.

The framers of the EPIRA recognized the inherent nature of the transmission in the Philippines as admitting only one transmission service provider. The relatively small demand, coupled with the relatively high capex requirement of an archipelagic transmission grid that requires numerous submarine interconnections, will not allow for more than one service provider, as economies of scale will not be available. This recognition is reflected in the Concession Agreement which names NGCP as the sole power transmission service provider.

Multiple transmission service providers will result in increased cost of service. The very small market of Visayas and Mindanao will mean significantly high cost of transmission service. Much smaller grids may not attract investors. As of this Prospectus, the Company believes that there is no technological advancement in the pipeline that the Company believes would allow the entry of new players in the transmission business.

### **NGCP owns parcels of land that are not yet registered in its name**

Some parcels of land acquired by NGCP are still pending registration and issuance of transfer certificates of title in its name. As of the date of this Prospectus, approximately 1,178 parcels of land are ongoing the registration process. Out of these 1,178 parcels of land, 216 parcels or around 18% are untitled property. NGCP is in the process of completing the documentary requirements for (i) the transfer of registration and issuance of new certificates of title in its name (for the properties covered by certificates of title) and (ii) the filing of petitions for issuance of original certificates of title (for the untitled parcels of land).

For titled properties that are pending registration under NGCP’s name, there is a risk that these properties may be subject to double sale. A double sale happens when the land is sold by the vendor to two or more vendees. In a double sale, the New Civil Code of the Philippines provides that the ownership of such land shall belong to the person acquiring it who in good faith first recorded it in the Registry of Deeds. Should there be no registration, the ownership shall pertain to the person who in good faith was first in possession; and in the absence thereof, to the person who presents the oldest title, provided there is good faith. To serve notice to third persons and protect NGCP’s rights and ownership over the acquired titled properties, the executed sale agreements were submitted to the various registries of deeds for recording and annotation on the certificates of title of the properties.

For untitled properties, there is no assurance that the petitions will be granted and that these untitled properties will be titled in the name of NGCP. Further, unlike registered lands, untitled lands are subject to acquisition by prescription or adverse possession. In order to protect NGCP's rights and ownership over the unregistered properties, the acquisitions were submitted to the various Municipal/ City Assessor's Offices for recording and/or annotation on the relevant tax declarations.

Any dispute arising from these parcels of land may adversely affect the operations of NGCP in case any purchaser or other person with prior right over the parcels of land successfully challenges NGCP's rights over these lands. However, to NGCP's knowledge, there are no existing disputes over the parcels of land pending registration, and the processing of registration is ongoing without any challenge from any third party. NGCP expects the transfer certificates of title or original certificates of title, as the case may be, to be issued in due course upon submission of the documentary requirements to the relevant registries of deeds.

NGCP is in peaceful, continuous, and exclusive possession of all parcels of land it has acquired and is able to use these properties for its operations. It acquired possession of these lands from the time of signing of the deeds of absolute sale, and therefore it has priority in right, unless the same parcel of land is earlier registered by another purchaser in good faith. Further, NGCP has a dedicated team that handles matters related to the registration and titling of its lands. This team regularly monitors the applications for registration and closely coordinates with relevant regulators and government agencies, which helps ensure timely processing of the applications.

## **RISKS RELATING TO THE PHILIPPINES**

*The Group closely monitors and adopts the necessary financial, operational and other controls and policies within the context of the prevailing business, economic, and political environment in the Philippines to address and manage risks relating to the Philippines.*

**The activities and assets of the Group are based in the Philippines, therefore, any downturn in the Philippine economy could have a material adverse impact on the Group's business, financial condition, results of operations, and prospects.**

The Group derives operating income and operating profits from the Philippines and, as such, is highly dependent on the state of the Philippine economy. Factors that may adversely affect the Philippine economy include: decreases in business, industrial, manufacturing or financial activities in the Philippines, the Southeast Asian region or globally; scarcity of credit or other financing, resulting in lower demand for products and services; the sovereign credit ratings of the country; foreign exchange rate fluctuations; foreign exchange controls; a prolonged period of inflation or increase in interest rates; levels of employment, consumer confidence and income; decrease in remittances from OFWs; changes in the Government's taxation policies; Government budget deficits; the emergence of infectious diseases and epidemics in the Philippines or in other countries in Southeast Asia and any related restrictions on travel and movement to control the spread of disease; natural disasters, including but not limited to tsunamis, typhoons, earthquakes, fires, floods and similar events; political instability, terrorism or military conflict in the Philippines, other countries in the region or globally; and other regulatory, social, political or economic developments in or affecting the Philippines.

The Philippines is currently experiencing an economic downturn due to the COVID-19 pandemic and resultant community quarantine. The country's gross domestic product suffered a 9.6% contraction for the whole of 2020 with economists forecasting it to rise sharply in 2021 by 6.5% to 7.5%. The World Bank expects the Philippine economy to grow by 4.7% and 5.9% in 2021 and 2022, respectively.

Factors that may adversely affect the Philippine economy include:

- decreases in business, industrial, manufacturing or financial activities in the Philippines, Southeast Asia or globally;
- scarcity of credit or other financing, resulting in lower demand for products and services provided by companies in the Philippines, Southeast Asia or globally;
- exchange rate fluctuations and foreign exchange controls;
- rising inflation or increases in interest rates;
- levels of employment, consumer confidence and income;
- changes in the Government's fiscal and regulatory policies and regulations, including tax laws and regulations that impact or may impact inflation and consumer demand;
- Government budget deficits;

- adverse trends in the current accounts and balance of payments of the Philippine economy;
- public health epidemics or outbreaks of diseases;
- natural disasters, including but not limited to tsunamis, typhoons, earthquakes, fires, floods and similar events;
- political instability, terrorism or military conflict in the Philippines, in other countries in the region or globally; and
- other regulatory, social, political or economic developments in or affecting the Philippines.

Uncertainty surrounding the global economic outlook could cause economic conditions in the Philippines to deteriorate and there can be no assurance that current or future Government policies will continue to be conducive to sustaining economic growth. There can be no assurance that the Philippines will maintain strong economic fundamentals in the future.

Any future deterioration in economic conditions in the Philippines due to these or other factors could materially and adversely affect the Company's customers and contractual counterparties. This, in turn, could materially and adversely affect the Group's financial position and results of operations. Therefore, changes in the conditions of the Philippine economy could materially and adversely affect the Group's business, financial condition or results of operations.

**Political instability in the Philippines may have a negative effect on the Philippine economy and business environment which could have a material adverse impact on the Group's business.**

The Philippines has from time to time experienced political and military instability. In recent history, there has been political instability in the Philippines, including extra-judicial killings, alleged electoral fraud, impeachment proceedings against two former presidents and two chief justices of the Supreme Court of the Philippines, hearings on graft and corruption issues against various government officials, and public and military protests arising from alleged misconduct by previous and current administrations. In addition, a number of officials of the Philippine government are currently under investigation or have been indicted on corruption charges stemming from allegations of misuse of public funds, extortion, bribery, or usurpation of authority. There can be no assurance that acts of political violence will not occur in the future and any such events could negatively impact the Philippine economy. An unstable political environment may negatively affect the general economic conditions and operating environment in the Philippines, which in turn could have a material adverse effect on the Group's business, operations, and financial condition.

In addition, the Group may be affected by political and social developments in the Philippines and changes in the political leadership and/or government policies in the Philippines. Such political or regulatory changes may include (but are not limited to) the introduction of new laws and regulations that could impact the Company's business.

The Philippine general elections for national and local officials are scheduled to take place on May 9, 2022. As the general elections draw closer, there has been increased partisan political activity by potential candidates for national or local office, political parties, and their supporters. The 2022 general election may also take place against the backdrop of the COVID-19 pandemic and the Philippine Commission on Elections has cautioned the public that, while it is unlikely for the 2022 elections to be postponed, there may be politicians and interest groups who would push for such an agenda.

Furthermore, there can be no assurance that the current administration, or the new administration after the 2022 general elections, will continue to implement social and economic policies that promote a favorable and stable macroeconomic and business environment. Policy instabilities or fundamental change of policy directions, including those with respect to Philippine foreign policy, may lead to an increase in political or social uncertainty and the loss of investor confidence in the Philippines. The President's unorthodox methods may also raise risks of social and political unrest. Any potential instability could have an adverse effect on the Philippine economy, which may impact the Group's business, prospects, financial condition and results of operations.

**The credit ratings of the Philippines may restrict the access to capital of Philippine companies, including the Group.**

International credit rating agencies issue credit ratings for companies with reference to the country in which they are resident. As a result, the sovereign credit ratings of the Philippines directly affect companies that are residents

in the Philippines, such as the Group. Historically the Philippines' sovereign debt has been rated relatively low by international credit rating agencies. As of December 31, 2019, the Philippines' long-term foreign-currency denominated debt was rated Baa2 by Moody's, BBB+ S&P Global Ratings, and BBB by Fitch. However, no assurance can be given that Fitch, Moody's, S&P Global Ratings or any other international credit rating agency, will not downgrade the credit ratings of the Government in the future and, therefore, of Philippine companies, including the Company. Any such downgrade could have a material adverse effect on liquidity in the Philippine financial markets and the ability of the Philippine government and Philippine companies, including the Company, to raise additional financing, and will increase borrowing and other costs. As of July 16, 2020, Moody's has affirmed the Philippines Baa2 rating with stable outlook. As of January 10, 2021, Fitch has affirmed the Philippines' long-term foreign-currency issuer default rating at BBB, noting that the outlook is stable. As of May 28, 2021, S&P maintained its BBB+ long-term credit rating for the Philippines with a stable outlook, and also affirmed its A-2 short-term credit rating for the Philippines.

**Public health crises or outbreaks of diseases could have an adverse effect on economic activity in the Philippines, and could materially and adversely affect the Group's business, financial condition and results of operations.**

An outbreak of disease or similar public health threat, such as COVID-19, or a pandemic, could trigger a public health crises which would have an adverse effect on economic activity in the Philippines, and could materially and adversely affect the Company's business, financial condition and results of operations. In addition, outbreaks of disease could result in increased government restrictions and regulation, including quarantines of personnel and customers, or an inability to access the Group's facilities or network infrastructure, which could adversely affect its operations.

As of the date of this Prospectus, Metro Manila is under Alert Level 4 until October 15, 2021. These measures have caused disruption to businesses and economic activities, and their impacts on businesses continue to evolve. The quarantine measures remain subject to further evaluation by the Inter-Agency Task Force for the Management of Emerging Infectious Diseases.

Based on reports from the Philippine Statistics Authority, the country's gross domestic product ("GDP") contracted by 9.6% in 2020, and by 4.2% in the first quarter of 2021.

The extent of the impact of COVID-19 on the Philippine economy and the speed and certainty of any economic recovery cannot be predicted for certain, and any new surge in infections may result in stricter quarantine or lockdown measures across provinces, cities and municipalities and may lead to further contraction of the Philippine economy, closure of businesses, and rise in unemployment rates.

The extent of the impact of the COVID-19 on the Group's operational and financial performance will depend on future developments, including the duration and spread of the outbreak and related restrictions, and the overall impact of COVID-19 on the Philippine economy and demand for NGCP's products and services, all of which are highly uncertain and cannot be predicted.

The Philippines has also experienced other public health epidemics or outbreaks of diseases, such as avian influenza or bird flu, African Swine Fever, dengue and polio, among others, which have adversely affected the local economy. For example, in 2019, the Department of Health declared a national dengue with 430,282 cases recorded for the year with 1,612 deaths. In September 2019, the Department of Health declared a polio epidemic after a case of the disease was recorded in Lanao del Sur after 19 years recording no cases in the country. If any such localized outbreak or any public health epidemic becomes widespread in the Philippines or increases in severity, this could have an adverse effect on economic activity in the Philippines, and could materially and adversely affect the Group's business, financial condition and results of operations.

**Acts of terrorism could destabilize the country and could have a material adverse effect on NGCP's assets and financial condition.**

The Philippines has been subject to a number of terrorist attacks in the past several years. The Philippine army has been in conflict with various groups which have been identified as being responsible for kidnapping and terrorist activities in the Philippines as well as clashes with separatist groups. In addition, bombings have taken place in the Philippines, mainly in cities in the southern part of the country. For example, in January 2019, bombs were detonated in the Jolo Cathedral in the Municipality of Jolo, Sulu and a Mosque in Zamboanga City, Zamboanga del Sur. In May 2017, a clash erupted in Marawi, Lanao del Sur between government security forces and the ISIS-affiliated Maute group, following the government's offensive to capture alleged ISIS leader in

Southeast Asia, Isnilon Hapilon, who was believed to be in the city. President Duterte immediately declared Martial Law in Mindanao amid protests from the opposition and sectors of civil society. In a special joint session convened on July 22, 2017, both Houses of Congress voted to extend Martial Law until the end of 2017. On October 17, 2017, President Duterte declared the liberation of Marawi City. The clashes resulted in the loss of lives of civilians, soldiers and ISIS-inspired extremists, as well as damage to property and livelihood of Marawi residents and the reconstruction of the city is on-going. Martial Law in Mindanao was extended by both Houses of Congress until December 31, 2019. The martial law in Mindanao was lifted on January 1, 2020, however certain areas in Mindanao remain under a state of emergency and law enforcement groups are in heightened security as a measure against potential terror threats.

On July 3, 2020, Republic Act No. 11479, otherwise known as the Ant-Terrorism Act of 2020, was signed into law and to replace Republic Act No. 9372, otherwise known as the Human Security Act of 2007. The law is currently being challenged in the Supreme Court by multiple groups.

An increase in the frequency, severity or geographic reach of these terrorist acts, violent crimes, bombings and similar events could have a material adverse effect on investment and confidence in, and the performance of, the Philippine economy. Any such destabilization could cause interruption to NGCP's business and materially and adversely affect the Group's financial conditions, results of operations and prospects. For example, isolated security related incidents have in the past disrupted operations and transmission projects under construction, including in Mindanao.

Continued conflicts between the Government and separatist groups could lead to further injuries or deaths by civilians and members of the Armed Forces of the Philippines, which could destabilize parts of the Philippines and adversely affect the Philippine economy. There can be no assurance that the Philippines will not be subject to further acts of terrorism or violent crimes in the future, which could have a material adverse effect on the Group's business, financial condition, and results of operations.

**Natural or other catastrophes, including severe weather conditions, may adversely affect the Group's business, materially disrupt the Group's operations and result in losses not covered by its insurance.**

The Philippines has experienced a number of major natural catastrophes over the years, including typhoons, droughts, volcanic eruptions and earthquakes. There can be no assurance that the occurrence of such natural catastrophes will not materially disrupt the Group's operations. These factors, which are not within the Group's control, could potentially have significant effects on the Group's assets and operations. Should an uninsured loss or a loss in excess of insured limits occur, the Group could lose all or a portion of the capital invested in such business, as well as the anticipated future turnover, while remaining liable for any costs or other financial obligations related to the business. Any material uninsured loss could materially and adversely affect the Group's business, financial condition and results of operations.

**Territorial disputes with China and a number of Southeast Asian countries may disrupt the Philippine economy and business environment.**

The Philippines, China and several Southeast Asian nations have been engaged in a series of longstanding territorial disputes over certain islands in the West Philippine Sea, also known as the South China Sea. The Philippines maintains that its claim over the disputed territories is supported by recognized principles of international law consistent with the United Nations Convention on the Law of the Sea ("UNCLOS"). Despite efforts to reach a compromise, a dispute arose between the Philippines and China over a group of small islands and reefs known as the Scarborough Shoal. Actions taken by both sides have threatened to disrupt trade and other ties between the two countries, including a temporary ban by China on Philippine banana imports, a temporary suspension of tours to the Philippines by Chinese travel agencies and the rejection by China of the Philippines' request for arbitral proceedings administered in accordance with the UNCLOS to resolve the disputes.

In 2016, the Permanent Court of Arbitration ruled in favor of the Philippines against China over territorial disputes in the West Philippine Sea. The arbitral tribunal unanimously ruled, among others, that (a) China has "no historical rights" to the resources within the sea areas falling within the "nine-dash line;" (b) Chinese reclamation activity in the West Philippine Sea has caused irreparable damage to the environment, obligating the Chinese government to stop further activities in the West Philippine Sea; and (c) China has violated the Philippines' sovereign rights in its exclusive economic zone by interfering with Philippine fishing and petroleum exploration, constructing artificial islands, and failing to prevent Chinese fishermen from fishing in the zone. However, China has said it will not recognize the ruling. With no formal enforcement mechanism in place, the territorial dispute in the West

Philippine Sea remains contentious and unresolved. There is no guarantee that the territorial dispute between the Philippines and other countries, would end or that any existing tension will not escalate further, as China has taken steps to exercise control over the disputed territory.

There had been other occurrences of territorial disputes with Malaysia and Taiwan. In March 2013, several hundred armed Filipino-Muslims illegally entered Malaysia in a bid to enforce an alleged historical claim on the territory. Clashes between the Filipino-Muslim individuals and the Malaysian armed forces resulted in casualties on both sides. Taiwan imposed economic sanctions on the Philippines as a result of an incident in May 2013, whereby a Taiwanese fisherman was unintentionally killed by a Philippine coast guard ship that opened fire on his vessel in a disputed exclusive economic zone between Taiwan and the Philippines. The sanctions were eventually lifted after a formal apology was issued by the Government.

Should territorial disputes between the Philippines and other countries in the region continue or escalate further, the Philippines and its economy may be disrupted and the Group's operations could be adversely affected as a result.

#### **Investors may face difficulties enforcing judgments against the Group.**

It may be difficult for investors to enforce judgments against the Group obtained outside of the Philippines. In addition, majority of the Group's directors and officers are residents of the Philippines, and all or a substantial portion of the assets of such persons are located in the Philippines. As a result, it may be difficult for investors to effect service of process upon such persons, or to enforce against them judgments obtained in courts or arbitral tribunals outside the Philippines predicated upon the laws of jurisdictions other than the Philippines.

The Philippines is party to the United Nations Convention on Recognition and Enforcement of Foreign Arbitral Awards, but it is not party to any international treaty relating to the recognition or enforcement of foreign judgments. Nevertheless, the Philippine Rules of Civil Procedure provide that a final and conclusive judgment of a foreign court is enforceable in the Philippines through an independent action filed to enforce such judgment, and without re-trial or re-examination of the issues, only if: (i) such judgment was obtained by collusion or fraud, (ii) the foreign court rendering such judgment did not have jurisdiction, (iii) such order or judgment is contrary to good customs, public order, or public policy of the Philippines, (iv) the party against whom the enforcement is sought did not receive notice of the proceedings before the foreign court, or (v) such judgment was based upon a clear mistake of law or fact.

#### **Corporate governance, disclosure and financial reporting standards in the Philippines may differ from those in other countries.**

There may be less publicly available information about Philippine public companies than is regularly made available by public companies in other countries. While the Issuer will comply with the requirements of the Philippine SEC and PSE with respect to corporate governance standards in respect of a publicly listed company, these standards may differ from those applicable in other jurisdictions.

### **RISKS RELATING TO THE OFFER AND THE OFFER SHARES**

#### **The market price of the Common Shares may be volatile, which could cause the value of investors' investments in the Common Shares to decline.**

The market price of Common Shares could be affected by several factors, including: general market, political and economic conditions; changes in earnings estimates and recommendations by financial analysts; changes in market valuations of listed stocks in general and other retail stocks in particular; developments in other markets and countries which adversely affect the Philippine economy; the market value of NGCP's assets; changes to Government policy, legislation or regulations; and general operational and business risks.

In addition, many of the risks described elsewhere in this Prospectus could materially and adversely affect the market price of the Common Shares.

In part as a result of the global economic downturn, the global equity markets have experienced price and volume volatility that has affected the share prices of many companies. Share prices for many companies have experienced wide fluctuations that have often been unrelated to the operating performance of those companies. Fluctuations such as these may adversely affect the market price of the Common Shares.

**There can be no guarantee that the Offer Shares will be listed on the PSE, or that there will be no regulatory action that could delay or affect the Offer.**

Purchasers of the Trading Participants and Retail Offer Shares will be required to pay for such Offer Shares on the Trading Participants and Retail Offer Settlement Date, which is expected to be on or about November 2, 2021 and purchasers of the Institutional Offer Shares will be required to pay on the Institutional Offer Settlement Date. There can be no guarantee that listing will occur on the anticipated Listing Date or at all. Delays in the admission and the commencement of trading in shares on the PSE have occurred in the past. If the PSE does not admit the Offer Shares onto the PSE, the market for the Offer Shares will be illiquid and shareholders may not be able to trade the Offer Shares. This may materially and adversely affect the value of the Offer Shares.

To manage these risks, SGP intends to comply with applicable regulatory requirements relating to the listing of the Offer Shares and to work in close coordination with the regulators, the Joint Financial Advisors, the Joint Global Coordinators and Joint Bookrunners, the Joint Domestic Lead Underwriters and Joint Bookrunners with a view to completing the Offer.

**The Offer Shares may not be a suitable investment for all investors.**

Each prospective investor in the Offer Shares must determine the suitability of that investment in light of its own circumstances. In particular, each prospective investor should: have sufficient knowledge and experience to make a meaningful evaluation of the Group, including NGCP and its business, the merits and risks of investing in the Offer Shares and the information contained in this Prospectus; have access to, and knowledge of, appropriate analytical tools to evaluate, in the context of its particular financial situation, an investment in the Offer Shares and the impact the Offer Shares will have on its overall investment portfolio; have sufficient financial resources and liquidity to bear all of the risks of an investment in the Offer Shares, including where the currency for purchasing and receiving dividends on the Offer Shares is different from the potential investor's currency; understand and be familiar with the behavior of any relevant financial markets; and be able to evaluate (either alone or with the help of a financial advisor) possible scenarios for economic, interest rate and other factors that may affect its investment and its ability to bear the applicable risks.

**Future sales of shares in the public market could adversely affect the prevailing market price of the Common Shares and shareholders may experience dilution in their holdings.**

In order to finance the expansion of the Group's business and operations, the Board will consider the funding options available to them at the time, which may include the issuance of new shares. Under SGP's Articles of Incorporation, stockholders shall have no pre-emptive right to subscribe to any issue or disposition of shares of any class. While the Revised Corporation Code of the Philippines and the listing rules of the PSE provide for some degree of minority shareholders' protection, if additional funds are raised by SGP through the issuance of new equity or equity-linked securities other than on a *pro rata* basis to existing shareholders such as through a share rights offer, the percentage ownership of existing shareholders may be reduced, shareholders may experience subsequent dilution or such securities may have rights, preferences and privileges senior to those of the Offer Shares.

Further, the market price of the Common Shares could decline as a result of future sales of substantial amounts of the Common Shares in the public market or significant sales, including by SGP's shareholders, or the issuance of new Shares, or the perception that such sales, transfers or issuances may occur. This could also materially and adversely affect the prevailing market price of the Common Shares or the ability to raise capital in the future at a time and at a price the Group deems appropriate.

Except for such restrictions, there is no restriction on SGP's ability to issue shares or the ability of any of its shareholders to dispose of, encumber or pledge, their shares, and there can be no assurance that SGP will not issue shares or that such shareholders will not dispose of, encumber or pledge, their shares.

**Investors may incur immediate and substantial dilution as a result of purchasing Common Shares in the Offer.**

The issue price of the Common Shares in the Offer may be substantially higher than the net tangible book value of net assets per share of the outstanding Common Shares. Therefore, purchasers of Common Shares in the Offer may experience immediate and substantial dilution and existing shareholders may experience a material increase in the net tangible book value of net assets per share of the Common Shares they own. See "*Dilution*" on page 84 of this Prospectus.

**Shareholders may be subject to limitations on minority shareholders' rights and regulations may differ from those in more developed countries.**

The corporate affairs of SGP are governed by its Articles of Incorporation and By-Laws and the Revised Corporation Code of the Philippines. The laws of the Philippines relating to the protection of interests of minority shareholders differ in some respects from those established under the laws of more developed countries. Such differences may mean that SGP's minority shareholders may have less protection than they would have under the laws of more developed countries. The obligation under Philippine law of majority shareholders and directors with respect to minority shareholders may be more limited than those in certain other countries such as the United States or the United Kingdom. Consequently, minority shareholders may not be able to protect their interests under current Philippine law to the same extent as in certain other countries.

The Revised Corporation Code of the Philippines, however, provides for minimum minority shareholders protection in certain instances wherein a vote by the shareholders representing at least two-thirds its outstanding capital stock is required. The Revised Corporation Code of the Philippines also grants shareholders an appraisal right allowing a dissenting shareholder to require the corporation to purchase their shares in certain instances. Derivative actions are rarely brought on behalf of companies in the Philippines. Accordingly, there can be no assurance that legal rights or remedies of minority shareholders will be the same, or as extensive, as those available in other jurisdictions or sufficient to protect the interests of minority shareholders.

**There can be no assurance that SGP will be able to pay dividends or maintain any given level of dividends.**

SGP is a holding company and conducts no significant business operations. NGCP is the sole operating asset of SGP held by the latter through its direct and indirect shareholdings in the Intermediate Holding Companies and, as such, SGP expects to depend upon the dividends and distributions from NGCP for almost all of its cash flow. Most of SGP's assets are held by, and almost all of its earnings and cash flows are ultimately attributable to NGCP. As a holding company, the Issuer's income, on a standalone basis, is derived primarily from dividends and distributions from NGCP. The Issuer's liquidity, ability to pay expenses, and meet obligations, are dependent upon the flow of funds from NGCP through the Intermediate Holding Companies. If the Issuer does not generate sufficient net operating profit, its income and resulting ability to pay dividends will be adversely affected. Dividends shall be declared and paid out of SGP's unrestricted retained earnings, which shall be payable in cash, property or stock to all shareholders on the basis of outstanding stock held by them. However, the Board of Directors, in its discretion, may decide to declare dividends to be payable in property or shares. The declaration of dividends is subject to the requirements of applicable laws and regulations, and circumstances which restrict the payment of dividends. See "*Dividends and Dividend Policy—Dividend Policy*" beginning on page 76 of this Prospectus.

The Board may, at any time, modify any dividend policy taking into consideration various factors including: the level of cash earnings, return on equity and retained earnings; results of operations and financial condition at the end of the year in respect of which the dividend is to be paid and its expected financial performance; the projected levels of capital expenditure and other investment plans; restrictions of payment of dividends that may be imposed on by any of the Group's financing arrangements and current and prospective debt service requirements; and such other factors as the Board deems appropriate.

No assurance can be given as to the ability to make or maintain dividends. Nor is there any assurance that the level of dividends will increase over time, or that the Group will generate adequate income available for dividends to shareholders.

To manage the risk to investors of the potential inability of SGP to pay dividends in a given financial period, it intends to comply with applicable financial reporting and disclosure requirements in order to apprise investors of the financial performance and position of SGP on a regular basis.

**The Common Shares are subject to Philippine foreign ownership limitations and holders of the Common Shares are subject to limitations on ownership in other Power Industry Players.**

The Philippine Constitution and related statutes set restrictions on foreign ownership in companies engaged in certain activities. In particular, foreign ownership in a public utility is limited to a maximum of: (i) 40% of its issued and outstanding capital stock; and (ii) 40% of its total issued and outstanding voting shares. Furthermore, ownership of private lands in the Philippines is also a nationalized activity reserved to Filipino citizens and corporations and associations at least 60% of whose capital is owned by Filipino citizens. Given the foregoing, SGP, as the indirect controlling shareholder of NGCP, a public utility and owner of several parcels of land, cannot

allow the issuance or the transfer of shares to persons other than Philippine Nationals and cannot record transfers in its books if such issuance or transfer would result in SGP ceasing to be a Philippine National for purposes of complying with the restrictions on foreign ownership.

Under the terms of the Franchise of NGCP and as a general rule, NGCP and its shareholders, directors or officers, or any of their relatives within the fourth civil degree of consanguinity and their respective spouses, shall not be allowed to hold any shares of stock in any Power Industry Player. Likewise, a Power Industry Player or its stockholders, directors or officers, or any of their relatives within the fourth civil degree of consanguinity and their respective spouses, shall not be allowed to hold any shares of stock in NGCP. As of the date of this Prospectus, SGP is not aware of any violation of the above restrictions.

Moreover, as long as SGP is listed on the PSE and owns shares of, or controls, NGCP, ownership of shares in SGP is subject to the following restrictions under the terms of the Franchise of NGCP: (i) a Power Industry Player or its stockholders, directors or officers, or any of their relatives within the fourth civil degree of consanguinity (except if such relative, whether by blood or marriage, has no employment, consultancy, fiduciary, contractual, commercial or other economic relationship or interest in such Power Industry Player) and their respective spouses, shall not be allowed to own more than 1% of the total outstanding shares of SGP, provided, however, that a stockholder of a PSE-listed Power Industry Player owning not more than 1% of the total outstanding shares of the same Power Industry Player shall not be subject to the foregoing restriction; and (ii) a stockholder of SGP shall not own more than 1% of the shares of stock or equity interest in any Power Industry Player (the “**Cross-Ownership Rule**”).

For purposes of the foregoing, a “**Power Industry Player**” means a generation company, distribution utility, or its respective subsidiary or affiliate, or other entity engaged in generating and supplying electricity specified by the ERC. An “affiliate” means any person which, alone or together with any other person, directly or indirectly, through one or more intermediaries, controls, is controlled by, or is under common control, with another person. As used herein, “control” shall mean the power to direct or cause the direction of the management policies of a person by contract, agency or otherwise.

SGP has amended its Articles of Incorporation to include a provision that any issuance or transfer of shares of SGP in violation of the foregoing restrictions shall be void, and no shares of stock of SGP issued or acquired in violation of such restrictions shall be recorded (or allowed to remain recorded) in the books of SGP, or allowed to vote or be entitled to representation at any stockholders’ meeting of the SGP, nor shall the holder of such shares of SGP be entitled to any of the rights of a stockholder of SGP, including the right to dividends, during the existence of such violation. SGP’s amended Articles of Incorporation containing the cross-ownership provision was submitted to the Philippine SEC for approval on September 28, 2021 and the Philippine SEC approved the amendment on October 6, 2021.

These restrictions may adversely affect the liquidity and market price of the Common Shares to the extent that international investors or investors owning more than 1% of the total outstanding shares of a listed Power Industry Player or with shareholdings in other Power Industry Players are not permitted to purchase Common Shares exceeding 1% of the total outstanding shares of SGP in normal secondary transactions. As of the date of this Prospectus, the Group is compliant with all conditions for foreign shareholder ownership and limitations under the Cross-Ownership Rule. See “*Regulatory and Environmental Matters—Foreign Investments and Laws and Regulations Relating to Restrictions on Foreign Equity*” on page 242 of this Prospectus.

**Future changes in the value of the Philippine Peso against the U.S. dollar and other currencies will affect the foreign currency equivalent of the value of the Common Shares and any dividends.**

Fluctuations in the exchange rate between the Philippine Peso and other currencies will affect the foreign currency equivalent of the Philippine Peso price of the Common Shares on the PSE. Such fluctuations will also affect the amount in foreign currency received upon conversion of cash dividends or other distributions paid in Philippine Pesos by SGP on, and the Philippine Peso proceeds received from any sales of, the Common Shares.

The Philippine economy has experienced volatility in the value of the Philippine Peso and also limitations to the availability of foreign exchange. In July 1997, the BSP announced that the Peso can be traded and valued freely on the market. As a result, the value of the Philippine Peso underwent significant fluctuations between July 1997 and December 2004 and the Philippine Peso declined from approximately ₱29.00 to U.S.\$1.00 in July 1997 to ₱56.18 to U.S.\$1.00 by December 2004. As of December 31, 2017, according to BSP data, the Peso remained steady at ₱49.93 per U.S.\$1.00 from ₱49.81 per U.S.\$1.00 at the end of 2016. The Peso depreciated to ₱51.80

against the U.S. dollar as of December 31, 2019, but has since appreciated and remained stable in 2020 and the first quarter of 2021. As of October 12, 2021, the exchange rate quoted on the BSP Reference Exchange Rate Bulletin was ₱50.67 per U.S.\$1.00. See “*Exchange Rates.*”

**The transfer of Offer Shares is restricted in certain jurisdictions which may adversely affect their liquidity and the price at which they may be sold.**

The Offer Shares have not been registered under, and SGP is not obligated to register the Offer Shares under, the U.S. Securities Act or the securities laws of any other jurisdiction and, unless so registered, may not be offered or sold except pursuant to an exemption from, or a transaction not subject to, the registration requirements of the U.S. Securities Act and any other applicable laws. See “*Plan of Distribution—Selling Restrictions*” on page 295 and “*Summary of the Offer—Transfer Restrictions*” on page 26. SGP has not agreed to or otherwise undertaken to register the Offer Shares in such other jurisdictions, and SGP has no intention of doing so.

**Overseas shareholders may not be able to participate in the Issuer’s future rights offerings or certain other equity issues.**

If SGP offers or causes to be offered to holders of the Offer Shares rights to subscribe for Common Shares or any right of any other nature, SGP will have discretion as to the procedure to follow in making such rights available to holders of the Offer Shares or in disposing of such rights for the benefit of such holders and making the net proceeds available to such holders. For example, such rights may not be offered to holders of the Common Shares who are U.S. persons (as defined in Regulation S) or have a registered address in the U.S. unless: (i) a registration statement is in effect, if a registration statement under the U.S. Securities Act is required in order for the Issuer to offer such rights to holders and sell the securities represented by such rights; or (ii) the offer and sale of such rights or the underlying securities to such holders are exempt from registration under the provisions of the U.S. Securities Act.

The Issuer has no obligation to prepare or file any registration statement outside of the Philippines if the offer and sale of rights to subscribe for securities or the underlying securities are exempted from the applicable registration requirements. Accordingly, shareholders who are subject to similar restrictions may be unable to participate in rights offerings and may experience a dilution in their holdings.

**The intended use of the proceeds of the Offer may be delayed or may not materialize**

The net proceeds from the sale of the Firm Shares are intended to be used for the purposes and in the manner set out in “*Use of Proceeds*”. In particular, the net proceeds from the sale of the Firm Shares shall be used by SGP to directly subscribe to non-voting preferred shares to be issued by NGCP, subject to applicable laws and regulations. NGCP expects to issue the non-voting preferred shares and use the proceeds thereof with within 12 months from completion of the Offer. However, while NGCP has agreed to create and issue the non-voting preferred shares and its principal shareholders have undertaken to cause the issuance of necessary corporate approvals for this purpose, the detailed terms and issue price of such non-voting preferred shares would be subject to negotiation between SGP and NGCP, and board and stockholders’ approvals and Philippine SEC approval, including for the amendment of NGCP’s articles of incorporation, are necessary to create and issue the shares. Thus, there is no guarantee that such non-voting preferred shares will be created or issued within the expected time frame. As a result, the use of proceeds may be delayed or may vary from the current intentions and the failure to apply the proceeds in a timely manner or effectively could adversely affect the prevailing market price of the Common Shares, NGCP’s capital expenditure plans, and the Group’s financial condition and results of operations.

To address the above, SGP intends to regularly submit reports via the PSE EDGE to ensure transparency in the use of proceeds as discussed under the section “*Use of Proceeds—Undertakings on Use of Proceeds*” and to consider other means by which NGCP can directly benefit from the proceeds, including through SGP advances to NGCP, subject to compliance with the requirements of NGCP’s Concession Agreement and applicable laws.

**There is disparity between the Offer Price of the Offer Shares and the last traded price of the Issuer’s common shares, and such Offer Price is outside the required price thresholds under PSE’s trading rules**

The last traded price on the PSE of SGP’s Common Shares was ₱395.80 per share before PSE suspended trading of such Common Shares effective May 31, 2021 for SGP’s failure to meet the minimum public ownership requirement following completion of the Share Swap. The Offer Price of ₱12.00 per Offer Share is below the applicable price thresholds under Section 7, Article IV of the PSE Revised Trading Rules and Section VI (1) of

its Implementing Guidelines. The PSE may disallow the listing of the Offer Shares and trading of the Option Shares if the trade price is not within the required thresholds.

However, the Joint Domestic Lead Underwriters and Joint Bookrunners submitted a letter to the PSE on October 5, 2021 requesting that the PSE lift or adjust the required price thresholds pursuant to Section 6, Article VII of the PSE Revised Trading Rules, and permit the listing of the Offer Shares and crossing of the Option Shares on the grounds that: (i) the completion of the Share Swap resulted in a drastic change in the underlying value of the Issuer; (ii) the offer price range of the Offer Shares at the time of the listing application is more reflective of the Issuer's market value; and (iii) the Issuer and the other parties to the Offer are mandated to offer the Offer Shares at the final offer price of the Offer Shares, which is more reflective of the Issuer's market value. The PSE issued a letter dated October 22, 2021, lifting the lower end of the price threshold, which effectively allows the Offer Shares to be listed and the Option Shares traded at the Offer Price, subject to compliance with the relevant price thresholds starting on the Listing Date.

## **RISKS RELATING TO CERTAIN INFORMATION IN THE PROSPECTUS**

### **Certain information contained herein is derived from unofficial publications.**

Certain information in this Prospectus relating to the Philippines, the power transmission business and the power industry and market, generally, including statistics relating to market size, is derived from various Government and private publications. This Prospectus also contains industry information which was prepared from available public sources and independent market research conducted by The Lantau Group. The information contained in that section may not be consistent with other information regarding the power transmission business and the power industry. Similarly, industry forecasts and other market research data, including those contained or extracted herein (such as in the section of this Prospectus entitled "*Industry*"), have not been independently verified by the Issuer, the Group, the Selling Shareholders, the Financial Advisors, the Joint Global Coordinators and Joint Bookrunners and the Joint Domestic Lead Underwriters and Joint Bookrunners, nor any of their respective affiliates or advisors, and may not be accurate, complete, up to date or consistent with other information compiled within or outside the Philippines. Prospective investors are cautioned accordingly.

### **The consolidated financial statements prepared for this Prospectus may not necessarily represent the Group's consolidated financial position, results of operation and cash flows.**

The Share Swap transaction wherein the Issuer issued Common Shares in exchange for the shares of stocks of OneTaipan and Pacifica21 resulted in a business combination involving OneTaipan and Pacifica21, including NGCP. SGP is considered to be a business combination of entities under common control as the two Principal Shareholders jointly control SGP, OneTaipan, Pacifica21 and NGCP before and after the Share Swap transaction. Accordingly, the consolidated financial information of the Group were restated as a result of the retrospective application of the accounting for business combination 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. The consolidated financial statements as of December 31, 2020 and 2019 and for the years ended December 31, 2020, 2019 and 2018, and as of and for the years ended December 31, 2018 and 2017 were restated as if the entities had been combined for the periods that the entities were under common control. See note 6 of the 2020 audited financial statements elsewhere in this Prospectus.

There can be no assurance that SGP's or NGCP's future performance will be consistent with the past financial performance included elsewhere in this Prospectus.

For further details, see "*Selected Financial Information and Operating Information*" on page 85 and "*Management's Discussion and Analysis of Financial Condition and Results of Operations—Basis of Preparation and Significant Judgments and Estimates*" on page 98.

## USE OF PROCEEDS

### FIRM OFFER

#### Estimated Expenses

The Offer Shares shall be offered at the Offer Price of ₱12.00 per Offer Share. The Issuer will receive gross proceeds of ₱12,642.0 million (U.S.\$260.4 million) for the sale of the Firm Shares and the estimated net proceeds from the Firm Shares will be approximately ₱12,224.5 million (U.S.\$251.8 million) after deducting the applicable underwriting and selling fees, licensing fees, taxes, costs and other expenses for the Offer. SGP will not receive any proceeds from the sale by the Selling Shareholders of any Option Shares, to the extent the Overallotment Option is exercised.

The estimated total proceeds from the sale of the Firm Shares, total expenses for the sale of the Firm Shares and the net proceeds from the sale of the Firm Shares will be as follows:

	<b>Estimated Amounts (₱) (in millions)</b>
<b>Estimated Total proceeds from the Offer of the Firm Shares .....</b>	<b>12,642.0</b>
<b>Estimated Expenses:</b>	
Underwriting fees for the Firm Shares (to be paid to the Joint Global Coordinators and Bookrunners) .....	88.5
Underwriting fees for the Firm Shares (to be paid to the Joint Domestic Lead Underwriters and Bookrunners).....	40.8
Discretionary fee for the Firm Shares <sup>(1)</sup> .....	31.6
Fees to be paid to the PSE Trading Participants .....	28.3
Taxes.....	10.5
Philippine SEC registration, filing and legal research fees .....	7.9
PSE Filing Fee .....	31.2
Estimated professional fees (including legal, accounting and financial advisory fees) <sup>(2)</sup> ..	163.6
Estimated professional fees include:	
Auditor Fees .....	4.0
Legal Fees .....	40.5
Industry Consultant Fees .....	3.5
Financial Advisory Fees.....	115.0
Stock Transfer and Receiving Agent Fees .....	0.5
Securities Depository Fees .....	0.1
Estimated other expenses <sup>(2)</sup> .....	15.0
<b>Total estimated expenses from the sale of Firm Shares.....</b>	<b>417.5</b>
<b>Estimated net proceeds from the sale of Firm Shares .....</b>	<b>12,224.5</b>

*Notes:*

(1) Discretionary fee payable at the sole discretion of SGP of 0.25% of the gross proceeds and estimated applicable taxes.

(2) "Estimated other expenses" includes expenses for the printing of the Prospectus, roadshows and miscellaneous expenses.

The actual underwriting and selling fees and other Offer-related expenses may vary from the estimated amounts. The estimated expenses set forth in the table above reflect the estimated expenses relating to the Firm Offer and are presented in this Prospectus for convenience only.

Expenses incurred in connection with the Primary Offer, including documentary stamp tax, and fees of the Domestic Receiving Agent, Registrar, Paying Agent and Stock Transfer Agent will be for the account of SGP.

#### Use of Proceeds

The net proceeds from the sale of the Firm Shares shall be used by the Issuer to directly subscribe to non-voting preferred shares to be issued by NGCP, subject to applicable laws and regulations. Such proceeds will be utilized within 12 months from receipt of the net proceeds from the Offer.

On October 5, 2021, the principal shareholders of NGCP, Calaca, Monte Oro and State Grid International Development Limited (a wholly owned subsidiary of SGCC), submitted an undertaking to the SEC (i) to cause

the approval by NGCP’s board of directors of the creation and issuance of the non-voting preferred shares and to submit proof of such approval to the SEC before the issuance of the Permit to Sell for the Offer, and (ii) to cause immediately after the completion of the Offer the approval by NGCP’s board of directors and shareholders of the detailed terms, including the issue price, of the non-voting preferred shares and the amendment for this purpose of NGCP’s articles of incorporation, subject to applicable laws and regulatory approvals. On October 18, 2021, NGCP’s board of directors passed a resolution approving the creation and issuance of the non-voting preferred shares, subject to applicable laws and regulatory approvals, and with the detailed terms, conditions and features of such shares to be considered and approved by the board of directors and shareholders of NGCP after the completion of the Offer. Accordingly, the expected time frame and process for the issuance and disbursement of the proceeds of the non-voting preferred shares is anticipated to be as follows:

<u>Period</u>	<u>Activity</u>
Immediately after completion of the Offer	NGCP’s board of directors and stockholders will approve the detailed terms, including the issue price, of the non-voting preferred shares and the amendment of the company’s Articles of Incorporation for such purpose. SGP’s board of directors will approve the subscription to the non-voting preferred shares.
January to March 2022	NGCP will file the necessary application for the amendment of its Articles of Incorporation with the Philippine SEC.
As soon as practicable after SEC approval of the amendment of NGCP’s Articles of Incorporation and up to November 2022	SGP will subscribe to, and NGCP will issue, non-voting preferred shares in one or more tranches depending on NGCP’s funding requirements; NGCP will disburse proceeds based on its CAPEX plan.

If the issuance of the non-voting preferred shares does not materialize, SGP and NGCP will consider and enter into alternative arrangements (by way of equity investment, debt or a combination of both) by which the net proceeds from the sale of the Firm Shares can be infused directly into NGCP. See *“Risk Factors—Risks relating to the Offer and the Offer Shares— The intended use of the proceeds of the Offer may be delayed or may not materialize.”*

Proceeds of the issuance of the non-voting preferred shares shall be utilized by NGCP to finance its capital expenditure requirements and related cost and expenses, subject to compliance with the requirements of NGCP’s Concession Agreement with PSALM and TRANSCO and applicable laws, including the Franchise of NGCP.

NGCP projects approximately ₱160 billion of capex requirements for the 5th Regulatory Period covering 2021 to 2025 to support the load growth and meet the large generation capacity additions while maintaining system reliability and power quality. Of the total amount, NGCP’s total capital expenditures budget in 2022 amounts to ₱37,599 million. About 68% or ₱25,594 million is attributable to CAPEX relating to planning and engineering, which relate to projects for load growth, system reliability, generation entry, power quality and other support activities.

In respect of NGCP’s other CAPEX requirements for 2022, NGCP intends to use cash flows generated from its operations and obtain long-term financing from local and international banks to fund its CAPEX requirements to the extent this is not covered by the proceeds from the issuance of the non-voting preferred shares to SGP. The Planning and Engineering CAPEX, which are driven by load growth, system reliability, generation entry, and power quality, are derived using inputs from the DOE and from the customers. Using the system peak demand forecast, power system simulation studies are conducted to identify grid problems on adequacy, reliability and power quality in the next 5, 10 to 20 years. Project solutions are evaluated which can include additional transformer installation, new substation, new transmission lines, capacitor or reactor. Similarly, entry of new power plants trigger new transmission backbone facilities necessary for power delivery to the load centers. See *“Management’s Discussion and Analysis of Financial Condition and Results of Operations—Capital Expenditures”* for further details on other sources of funding for NGCP’s capital expenditures on page 119.

## *Planning and Engineering CAPEX*

NGCP's planning and engineering CAPEX is geared towards fulfilling its mandate to expand and improve the Grid. The Transmission Development Plan (“**TDP**”) 2021-2040 contains NGCP's long-term expansion plan and it is guided by NGCP's vision to build the strongest power grid in Southeast Asia, to contribute to the social and economic development of the country and to satisfy its stakeholders' needs. The TDP is a comprehensive plan that includes not only the expansion but also how NGCP will improve and replace assets that are beyond their respective economic lives.

As part of its planned CAPEX for the 5th Regulatory Period, NGCP has identified 95 projects to be implemented in 2022. As of June 2021, 39 of the 95 projects have ERC approval representing approximately ₱7,503.1 million in CAPEX, while applications have been submitted to the ERC for the approval of 51 projects and three projects have pending applications for a provisional authority from the ERC. The ERC-approved CAPEX projects for 2022 includes ongoing projects such as the Mindanao-Visayas Interconnection Project and the Cebu-Negros-Panay 230KV Backbone Project-Stage3 (CNP3), as well as various substation, voltage improvement, transmission line and transmission facilities projects across the Philippines.

NGCP has not yet identified any specific projects to be funded from the proceeds of the non-voting preferred shares to be issued to SGP, and the proceeds can fund any number of the 95 projects depending on the stage of implementation, urgency and other factors. It is also possible that a project may be funded partly by the proceeds of the non-voting preferred shares and partly by cash flows from operations and/or other financing.

### *Mandate of NGCP*

NGCP's Franchise mandates it to maintain and operate the Transmission System and the main Grid.

Section 21 of Republic Act No. 9136, or the “Electric Power Industry Reform Act of 2001,” provides that “[T]he buyer/concessionaire [of the transmission system] shall be responsible for the improvement, expansion, operation and/or maintenance of its transmission assets and the operation of any related business.”

Clause 2.01 of the Concession Agreement grants NGCP, on an exclusive basis, the rights and responsibilities during the Concession Period “(1) to construct, install, finance, manage, improve, expand, operate, maintain, rehabilitate, repair, refurbish and replace the Transmission Assets, save that with regard the Sub-transmission Assets, this obligation shall only be to operate and maintain the Sub-transmission Assets which have not been disposed by TransCo, (2) to prepare the TDP and to implement such projects in the TDP as may be authorized by the ERC...” Clause 7.01 (Transmission Development Plan) of the Concession Agreement also provides that NGCP, as concessionaire, shall be responsible for preparing the TDP for the DOE and in consultation with TransCo.

### *Transmission Development Plan*

The Transmission Development Plan or TDP refers to the program for managing the transmission system through efficient planning for the expansion, upgrading, rehabilitation, repair and maintenance, formulated by the NGCP in consultation with participants of the electric power industry such as the generation companies, distribution utilities, and the electricity end-users. The TDP shall be submitted to the DOE for integration with the Power Development Program (PDP) and the Philippine Energy Plan (PEP).

The Grid development thrust in the TDP formulated by NGCP is geared towards the implementation of grid resiliency program, improvement in transmission planning for the Competitive Renewable Energy Zones, integration of emerging technologies, re-focused development strategy for 69kV facilities, increased electricity access through island/off-grid interconnections, and continuous development of major transmission backbone.

With planning horizon up to 2040, the TDP is the master plan that seeks to ensure that the country has a transmission network that can support growth and competitive electricity prices. This is done through a program that will significantly upgrade and expand the transmission backbone in order to meet the forecast demand, support the entry of new generating facilities and allow market competition. This also entails the creation of an interconnected Philippine Grid which will allow the export of power between Luzon, Visayas and Mindanao Grids. As the Luzon and the Visayas Grids are already interconnected, connecting the Visayas and Mindanao would create more open, liberalized and competitive market as Mindanao-based industry players can participate freely in WESM.

### *Contribution of the SGCC*

As NGCP's technical partner, the State Grid Corporation of China (SGCC) collaborates closely with NGCP through technical advice on design and engineering construction standards. This enables NGCP to enhance and improve its own manual on Construction Quality and Workmanship Standards, particularly those for transmission lines, substation architectural/civil works and substation electromechanical works, which are now being implemented in NGCP's landmark project—the Mindanao Visayas Interconnection Project (MVIP). The MVIP also benefited from SGCC's vast experience and technical expertise on HVDC systems, which were instrumental in the design and development the project.

Through its research institute, SGCC helps in the conduct of studies for the assessment of the transmission Grid's readiness for renewable energy integration. In addition, NGCP benefits from technology exchanges and site visits with SGCC on various subjects such as Smart Grid, power system protection, and grid operations, to keep NGCP personnel in pace with the latest technology.

### **Undertaking on Use of Proceeds**

Pending the above use of proceeds, SGP shall invest the net proceeds from the Firm Shares in short-term liquid investments including but not limited to short-term government securities, bank deposits and money market placements which are expected to earn at prevailing market rates.

No amount of the proceeds is to be used to reimburse any officer, director, employee, or shareholder, for services rendered, assets previously transferred, money loaned or advanced, or otherwise. No amount of the proceeds will be used to discharge any outstanding debts of SGP or NGCP.

Except for the underwriting fees, issue management fees and expenses related to the Offer, no amount of the proceeds will be utilized to pay any outstanding financial obligations to the Joint Global Coordinators and Joint Bookrunners and the Joint Domestic Lead Underwriters and Joint Bookrunners.

The foregoing discussion represents a best estimate of the use of proceeds of the Firm Shares based on the Issuer's current plans and anticipated expenditures. In the event that there is any change in the Issuer's plan, including force majeure, market conditions and other circumstances, the Issuer will carefully evaluate the situation and may reallocate the proceeds for future investments or other uses, and/or hold such funds in investments, whichever is more advantageous for the Issuer's and its shareholders' interest taken as a whole.

The Issuer undertakes that it will not use the net proceeds from the Firm Shares for any purpose, other than as discussed above. However, NGCP's plans may change, based on factors including changing macroeconomic and market conditions, or new information regarding the cost or feasibility of these plans. The Group's cost estimates may also change as these plans are developed further, and actual costs may be different from budgeted costs. For these reasons, timing and actual use of the net proceeds may vary from the foregoing discussion and the Issuer's management may find it necessary or advisable to alter its plans.

In the event of any substantial deviation, adjustment or reallocation in the planned use of proceeds, the Issuer shall inform the Philippine SEC, PSE and the stockholders in writing at least 30 calendar days before such substantial deviation, adjustment or reallocation is implemented. Any material or substantial adjustments to the use of proceeds, as indicated above, should be approved by the Board, and disclosed to the PSE via PSE EDGE.

In addition, the Issuer shall submit via the PSE EDGE the following disclosures to ensure transparency in the use of proceeds:

- i. quarterly progress report on the application of the proceeds from the Offer on or before the first 15 days of the following quarter;
- ii. annual summary of the application of the proceeds on or before January 31 of the following year; and
- iii. approval by the Board in line with the Issuer's approval limits of any reallocation on the planned use of proceeds. The actual disbursement or implementation of such reallocation must be disclosed by the Issuer at least 30 days prior to the said actual disbursement or implementation.

The Issuer shall submit a certification by the Issuer's Treasurer and external auditor on the accuracy of the information reported by the Issuer to the PSE, as well as a detailed explanation for any material variances between

the actual disbursements and the planned use of proceeds in the Prospectus, if any, in the Issuer's quarterly and annual reports as required in items (ii) and (iii) above. Such detailed explanation will state the approval of the Board as required in item (iv) above.

## EXERCISE OF THE OVERALLOTMENT OPTION

### Estimated Expenses

The estimated total proceeds that the Selling Shareholders will receive from the sale of the Option Shares, total expenses for the sale of the Option Shares and the net proceeds from the sale of the Option Shares will be as follows:

	<b>Estimated Amounts (₱) (in millions)</b>
<b>Estimated Total proceeds from the Overallotment Option.....</b>	<b>1,212.0</b>
<b>Estimated Expenses:</b>	
Selling fees for the Overallotment Option (to be paid to the Joint Global Coordinators and Bookrunners).....	8.5
Selling fees for the Overallotment Option (to be paid to the Joint Domestic Lead Underwriters and Bookrunners).....	3.9
Discretionary fee for the Overallotment Option <sup>(1)</sup> .....	3.0
Crossing Expenses <sup>(2)</sup> .....	20.8
Estimated other expenses.....	1.0
<b>Total estimated expenses from the offer of Overallotment Option .....</b>	<b>37.2</b>
<b>Estimated net proceeds from the offer of Overallotment Option .....</b>	<b>1,174.8</b>

Notes:

(1) Discretionary fee payable at the sole discretion of SGP of 0.25% and estimated applicable taxes.

(2) "Crossing Expenses" refers to commissions, SCCP fees, Securities Investors Protection Fund, Philippine SEC fees, and block sale fees.

The Issuer will not receive any of the proceeds from the sale of the Option Shares. The actual selling fees and other Offer-related expenses may vary from the estimated amounts indicated above. The estimated amounts set forth in the table above reflect the estimated expenses relating to the Overallotment Option and are presented in this Prospectus for convenience only.

## DIVIDENDS AND DIVIDEND POLICY

### LIMITATIONS AND REQUIREMENTS

Under Philippine law, a corporation can only declare dividends to the extent that it has unrestricted retained earnings that represent the undistributed earnings of the corporation which have not been allocated for any managerial, contractual or legal purpose and which are free for distribution to the shareholders as dividends. The amount of retained earnings available for declaration as dividends may be determined pursuant to regulations issued by the Philippine SEC. SGP is permitted under Philippine law to declare cash, property and stock dividends, subject to certain requirements. See “*Description of the Shares—Rights Relating to Shares—Dividends and Dividend Rights*” on page 266 of this Prospectus.

Dividends, whether cash, property or stocks, declared by NGCP and received by the holding companies, and ultimately, by SGP (i.e., from Monte Oro and Calaca to OneTaipan and Pacifica21, respectively, and to SGP) are not subject to Philippine income tax. Under the Tax Code, as amended, dividends received by a domestic corporation from another domestic corporation are not subject to tax as these are excluded from the taxable income of the recipient domestic corporation.

The approval of the board of directors is generally sufficient to approve the distribution of dividends, except in the case of stock dividends which requires the approval of stockholders representing at least two-thirds of the total outstanding capital stock (which refers to the total shares of stock subscribed by, under binding subscription agreements with, subscribers or stockholders, whether paid in full or in part, except treasury shares) at a regular or special meeting duly called for the purpose.

The Revised Corporation Code of the Philippines generally requires a Philippine corporation with retained earnings in excess of 100% of its paid-in capital to declare and distribute as dividends the amount of such surplus. Notwithstanding this general requirement, a Philippine corporation may retain all or any portion of such surplus in the following cases: (i) when justified by definite expansion plans approved by the board of directors of the corporation; (ii) when the required consent of any financing institution or creditor to such distribution has not been secured; (iii) when retention is necessary under special circumstances, such as when there is a need for special reserves for probably contingencies; or (iv) when the non-distribution of dividends is consistent with the policy or requirement of a Government office.

### RECORD DATE AND PAYMENT DATE

Pursuant to existing Philippine SEC rules, any declaration of cash dividends must have a record date not less than 10 nor more than 30 days from the date of declaration. For stock dividends, the record date should not be less than 10 nor more than 30 days from the date of the shareholders’ approval. In either case, the set record date is not to be less than 10 trading days from receipt by the PSE of the notice of declaration of dividend. In the event that a stock dividend is declared in connection with an increase in authorized capital stock, the corresponding record date is to be fixed by the Philippine SEC. In case no record date is specified for the cash and stock dividend declaration, then the same shall be deemed fixed at 15 days from such declaration.

In relation to foreign shareholders, dividends payable may not be remitted using foreign exchange sourced from the Philippine banking system unless the investment by such foreign shareholder was first registered with the BSP.

Pursuant to the “Amended Rules Governing Pre-emptive and other Subscription Rights and Declaration of Stock and Cash Dividends” of the Philippine SEC, all cash dividends and stock dividends declared by a company shall be remitted to PDTC for immediate distribution to participants not later than 18 trading days after the record date (the “**Payment Date**”); provided that in the case of stock dividends, the credit of the stock dividend shall be on the Payment Date which in no case shall be later than the stock dividends’ listing date. If the stock dividend shall come from an increase in capital stock, all stock shall be credited to PDTC for immediate distribution to its participants not later than 20 trading days from the record date set by the Philippine SEC, which in no case shall be later than the stock dividends’ listing date.

In accordance with the PSE disclosure rules, for all cash and stock dividends accruing to shares lodged with the PDTC, whether from unissued capital or resulting from an increase in capital stock, the same shall be remitted/credited to the PDTC for immediate distribution to its participants not later than 18 trading days from the record date.

## DIVIDEND POLICY

There is no restriction that limits the ability of a corporation incorporated in the Philippines to pay dividends on common equity other than the unavailability of unrestricted retained earnings.

### SGP

On August 10, 2021, SGP's Board of Directors passed a resolution setting out the Issuer's dividend policy, pursuant to which stockholders will be entitled to receive, upon declaration by the Board of Directors and subject to the availability of unrestricted retained earnings and settlement of operational expenses and other relevant taxes, costs and expenses required to be paid by SGP in the ordinary course of business, and subject to any financing covenants, if applicable, dividends equivalent to up to 100% of the prior year's net income after tax based on its audited financial statements as of such year. For the avoidance of doubt, the prior year's net income after tax shall be determined with reference to the financial statements of SGP, and subject to the availability of cash and unrestricted retained earnings available for dividends, based on the separate financial statements of SGP, and not on the basis of the Group's consolidated financial statements. Historically, the Intermediate Holding Companies and NGCP have declared and paid dividends on a quarterly basis. Subject to such quarterly dividends being paid by the Consolidated Subsidiaries, SGP likewise intends to declare dividends on a quarterly basis.

### Intermediate Holding Companies

On August 10, 2021, the board of directors of each of OneTaipan, Monte Oro, Pacifica21 and Calaca adopted similar resolutions on the declaration of dividends, which provide that stockholders are entitled to up to 100% of the prior year's net income after tax based on the relevant company's audited financial statements as of such year, subject to the availability of unrestricted retained earnings and settlement of operational expenses and other relevant taxes, cost and expense required to be paid in the ordinary course of business, and subject to any financing covenants, if applicable.

### NGCP

On September 16, 2021, the board of directors of NGCP passed a resolution establishing its dividend policy. Under such policy, any declaration of dividends must be aligned with the objective of maintaining a level of capitalization that is commercially sound and must ensure that NGCP can sustainably operate while creating value for its shareholders. As such, NGCP will work towards maximizing dividends within the framework of the policy. Its board of directors shall approve the declaration of cash dividends out of its unrestricted retained earnings subject to the following conditions:

- (i) Compliance with the pertinent provisions of the Concession Agreement on dividends. The Concession Agreement provides that NGCP can declare dividends (even without PSALM's consent), if (a) there is no occurrence or continuation of a Concessionaire's Default<sup>[1]</sup> or an event that might become a Concessionaire's Default with the lapse of time or the giving of notice or both; and (b) there is no Deferred Payments that remain unpaid or, even if some Deferred Payments are unpaid, the required Financial Tests<sup>[2]</sup> are met as at the date any dividend is declared or paid. If any of the above conditions is not met, NGCP can declare dividends only with the prior written consent of PSALM. Under the Concession Agreement, "Financial Tests" means that, as of the date a dividend is declared or as of the date a dividend or remittance on account of shareholder loans or advances is made (the "relevant date"), (1) no installment of the Deferred Payments or other Indebtedness shall be in arrears, and (2) the Debt Service Coverage Ratio as at the relevant date is not less than 1.15.

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<sup>[1]</sup> Section 13.01 of the Concession Agreement provides for the following events of default by NGCP: (a) revocation of congressional franchise or other authority to operate; (b) cessation of eligibility to hold a congressional franchise or other authority to operate a public utility; (c) occurrence of a change in control without PSALM's written consent or breach of equity retention; (d) default in making timely payment of any amount payable of the concession fee; (e) material default in the observance or performance of any other covenant; (f) declaration by any party or parties to any material indebtedness to be in default; (g) event of bankruptcy; (h) material misrepresentation or incorrect warranty; and (i) abandonment.

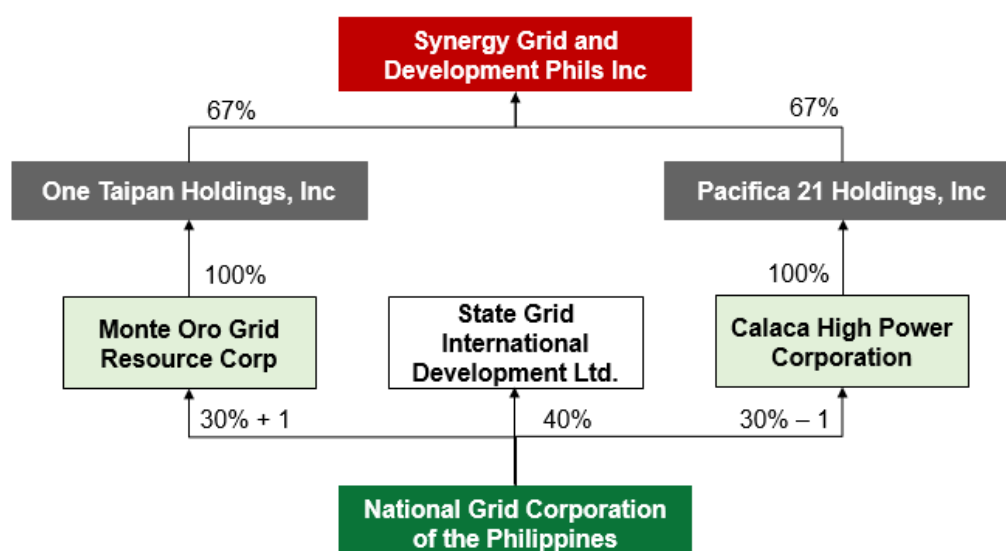
<sup>[2]</sup> Financial tests means that as of the date a dividend is declared or as of the date a dividend or remittance on account of shareholder loans or advances is made (the "relevant date"), (i) no installment of the Deferred Payments or other Indebtedness shall be in arrears, and (ii) the Debt Service Coverage Ratio as at the relevant date is not less than one decimal fifteen (1.15).

- (ii) Compliance with applicable covenants under any loan agreements with banks and financial institutions, whether local or foreign;
- (iii) Compliance with the provisions of the Revised Corporation Code on dividend declaration and applicable issuance of the Philippine SEC; and
- (iv) Any dividend declaration shall also be subject to and consider, among others (a) capital expenditure requirements and settlement of operational expenses; (b) legal and regulatory requirements that determine cash flows available for capital expenditure, operational requirements and dividends; and (c) market and financial conditions and other contingencies that may affect the Corporation’s cash flows and funding requirements.

Historically, NGCP has declared and paid dividends on a quarterly basis, subject to the availability of unrestricted retained earnings and settlement of operational expenses and other relevant taxes, cost and expense required to be paid in the ordinary course of business, and subject to any financing covenants, if applicable. See “—History of Dividend Payment” below.

### Flow of Dividends

The chart below presents the flow of dividends from NGCP to the Intermediate Holding Companies and SGP.



The Board of SGP, may, at any time, implement and modify the dividend policy depending upon the results of operations and future projects and plans and other considerations.

Dividends, if any, shall be declared and paid out of SGP’s unrestricted retained earnings which shall be payable in cash, property or stock to all shareholders on the basis of the outstanding stock held by them. Unless otherwise required by law, the Board, has sole discretion to determine the amount, type and date of payment of the dividends to the shareholders, taking into account various factors, including:

- the level of earnings, cash flow, return on equity and retained earnings;
- results of operations and financial condition at the end of the year in respect of which the dividend is to be paid and expected financial performance;
- the projected levels of capital expenditures and other investment programs;
- restrictions on payments of dividends that may be imposed by any current or future financing arrangements and current or prospective debt service requirements; and
- such other factors as the Board deems appropriate.

SGP may also in the future enter into certain financing arrangements that would restrict its ability to pay dividends.

## HISTORY OF DIVIDEND PAYMENT

SGP has not declared any dividends to its stockholders from 2018 to the first half of 2021, since its operating asset, NGCP, was consolidated to SGP only in May 2021. On September 27, 2021, SGP's Board of Directors approved the declaration of cash dividends to its stockholders in the aggregate amount of ₱2,000,873,850 representing dividend flows from NGCP and the Intermediate Holding Companies for the second and third quarters of 2021. Payment date is October 18, 2021.

Historically, the respective board of directors of the Intermediate Holding Companies and NGCP have approved the declaration and payment of dividends to their respective shareholders. The tables below set out the dividend history of each.

### One Taipan

Date of Declaration	Dividend		Payment Date
	Amount (₱)	Type	
March 14, 2018	1,325,000,000	Cash	April 16, 2018
June 7, 2018	1,345,000,000	Cash	June 13, 2018
September 27, 2018	1,320,000,000	Cash	September 28, 2018
December 7, 2018	1,345,000,000	Cash	December 7, 2018
April 16, 2019	1,125,000,000	Cash	April 16, 2019
September 10, 2019	58,135,000	Cash	September 10, 2019
October 31, 2019	2,235,000,000	Cash	October 31, 2019
December 18, 2019	1,120,000,000	Cash	December 18, 2019
June 1, 2020	880,000,000	Cash	June 1, 2020
July 23, 2020	890,000,000	Cash	July 23, 2020
October 19, 2020	900,000,000	Cash	October 19, 2020
December 3, 2020	900,000,000	Cash	December 3, 2020 December 15, 2020
May 10, 2021	900,000,000	Cash	June 4, 2021 June 30, 2021 July 5, 2021
September 14, 2021	900,000,000	Cash	September 14, 2021 September 23, 2021
September 21, 2021	895,000,000	Cash	September 21, 2021 September 23, 2021

### Pacifica21

Date of Declaration	Dividend		Payment Date
	Amount (₱)	Type	
March 14, 2018	1,340,000,000	Cash	April 13, 2018
June 7, 2018	1,345,000,000	Cash	July 13, 2018
September 27, 2018	1,345,000,000	Cash	September 28, 2018
December 7, 2018	1,350,000,000	Cash	December 19, 2018
April 16, 2019	1,125,000,000	Cash	April 16, 2019
October 31, 2019	2,235,000,000	Cash	November 4, 2019
December 18, 2019	1,120,000,000	Cash	December 19, 2019
June 1, 2020	880,000,000	Cash	June 1, 2020
July 23, 2020	890,000,000	Cash	July 23, 2020
October 19, 2020	900,000,000	Cash	October 19, 2020
December 15, 2020	900,000,000	Cash	December 15, 2020
May 10, 2021	900,000,000	Cash	June 4, 2021 June 30, 2021 July 5, 2021
September 1, 2021	900,000,000	Cash	September 2, 2021

September 21, 2021	895,000,000	Cash	September 21, 2021
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### Monte Oro

Date of Declaration	Dividend		Payment Date
	Amount (₱)	Type	
March 14, 2018	1,345,000,000	Cash	March 14, 2018
June 7, 2018	1,345,000,000	Cash	June 7, 2018
September 27, 2018	1,350,000,000	Cash	September 27, 2018
December 7, 2018	1,345,000,000	Cash	December 7, 2018
April 16, 2019	1,125,000,000	Cash	April 16, 2019
June 27, 2019	1,120,000,000	Cash	June 27, 2019
October 31, 2019	1,115,000,000	Cash	October 31, 2019
December 18, 2019	1,120,000,000	Cash	December 18, 2019
May 18, 2020	880,000,000	Cash	May 18, 2020
July 8, 2020	890,000,000	Cash	July 8, 2020
September 23, 2020	900,000,000	Cash	September 23, 2020
December 3, 2020	900,000,000	Cash	December 3, 2020
May 6, 2021	895,000,000	Cash	May 6, 2021
June 22, 2021	895,000,000	Cash	June 22, 2021
September 17, 2021	895,000,000	Cash	September 17, 2021

### Calaca

Date of Declaration	Dividend		Payment Date
	Amount (₱)	Type	
March 14, 2018	1,340,000,000	Cash	March 14, 2018
June 7, 2018	1,345,000,000	Cash	June 7, 2018
September 27, 2018	1,345,000,000	Cash	September 27, 2018
December 7, 2018	1,350,000,000	Cash	December 7, 2018
April 16, 2019	1,125,000,000	Cash	April 16, 2019
June 27, 2019	1,120,000,000	Cash	June 27, 2019
October 31, 2019	1,115,000,000	Cash	October 31, 2019
December 18, 2019	1,120,000,000	Cash	December 18, 2019
May 18, 2020	880,000,000	Cash	May 18, 2020
July 8, 2020	890,000,000	Cash	July 8, 2020
September 23, 2020	900,000,000	Cash	September 23, 2020
December 3, 2020	900,000,000	Cash	December 3, 2020
May 6, 2021	895,000,000	Cash	May 6, 2021
June 22, 2021	895,000,000	Cash	June 22, 2021
September 17, 2021	895,000,000	Cash	September 17, 2021

### NGCP

Date of Declaration	Dividend		Payment Date
	Amount (₱)	Type	
March 7, 2018	4,500,000,000	Cash	March 7, 2018
May 22, 2018	4,500,000,000	Cash	May 22, 2018
September 7, 2018	4,500,000,000	Cash	September 7, 2018
November 23, 2018	4,500,000,000	Cash	November 23, 2018
March 7, 2019	3,750,000,000	Cash	March 7, 2019
June 26, 2019	3,750,000,000	Cash	June 26, 2019

Date of Declaration	Dividend		Payment Date
	Amount (₱)	Type	
September 26, 2019	3,750,000,000	Cash	September 26, 2019
November 21, 2019	3,750,000,000	Cash	November 21, 2019
March 19, 2020	3,000,000,000	Cash	March 19, 2020
June 18, 2020	3,000,000,000	Cash	June 18, 2020
September 17, 2020	3,000,000,000	Cash	September 17, 2020
November 19, 2020	3,000,000,000	Cash	November 19, 2020
March 25, 2021	3,000,000,000	Cash	March 25, 2021
June 16, 2021	3,000,000,000	Cash	June 17, 2021
September 16, 2021	3,000,000,000	Cash	September 16, 2021

The decrease in dividend payout in 2020 was a result of re-allocation of funds to cover COVID-19 pandemic uncertainties while the ensuring compliance with the financial covenants in the Concession Agreement and Loan Facility Agreements, particularly Debt Service Coverage Ratio and Debt Equity Ratio. The decreasing dividend payout in the last three years are primarily due to increased allocation of internally generated funds for CAPEX projects. In the absence of 4th Regulatory Reset and on the basis of the interim Maximum Annual Revenue, NGCP implemented CAPEX projects partly from internally generated cash amounting to ₱21.8 billion in 2017, ₱32.1 billion in 2018, ₱35.3 billion in 2019 and ₱40.0 billion in 2020. These projects include the Cebu-Negros-Panay 230kV Backbone Project—Stage 3 and the Mindanao Visayas Interconnection Project, pursuant to NGCP's mandate to maintain, refurbish and expand the Philippine transmission Grid in support of the country's infrastructure development while building the Company's asset base which is the main driver of revenue growth.

## EXCHANGE RATES

The following table sets forth certain information concerning the exchange rate as set out in the BSP Daily Reference Exchange Rate Bulletin, expressed in Philippine Pesos per U.S.\$1.00:

<b>Year</b>	<b>Philippine Peso/U.S. dollar exchange rate</b>			
	<b>Period end</b>	<b>Average<sup>(1)</sup></b>	<b>High<sup>(2)</sup></b>	<b>Low<sup>(3)</sup></b>
2016.....	49.81	47.49	49.98	45.92
2017.....	49.92	50.40	51.80	49.40
2018.....	52.72	52.66	54.35	49.77
2019.....	50.74	51.80	52.89	50.49
2020.....	48.04	49.62	51.32	48.03
2021				
April.....	48.39	48.46	48.58	48.30
May.....	47.90	47.96	48.16	47.82
June.....	48.54	48.12	48.84	47.67
July.....	50.34	49.94	50.44	48.70
August.....	50.04	50.23	50.56	49.72
September.....	50.96	50.14	50.96	49.76
October (as of October 12)	50.67	50.73	50.89	50.49

*Notes:*

- (1) *Average exchange rate quoted on BSP's Reference Exchange Rate Bulletin for the period.*
- (2) *Highest daily exchange rate quoted on BSP's Reference Exchange Rate Bulletin for the period.*
- (3) *Lowest daily exchange rate quoted on BSP's Reference Exchange Rate Bulletin for the period.*

On October 12, 2021, the exchange rate quoted on the BSP Daily Reference Exchange Rate Bulletin was U.S.\$1.00 = ₱50.67.

## **DETERMINATION OF THE OFFER PRICE**

The Offer Price has been set at ₱12.00 per Offer Share. The Offer Price has been determined through a book-building process and discussion among the Issuer, the Joint Financial Advisors, the Joint Global Coordinators and Joint Bookrunners and the Joint Domestic Lead Underwriters and Joint Bookrunners.

Investors should not rely on the historical market price of the Common Shares on the PSE as an indicator of the value of the Common Shares.

The factors considered in determining the Offer Price include the ability of NGCP (being SGP's sole operating asset held by it through its direct and indirect shareholdings in the Intermediate Holding Companies) to generate and grow earnings and cash flows, NGCP's short and long-term prospects, the level of demand from institutional investors, overall market conditions at the time of launch of the Offer, and the market valuation of comparable listed companies. The Offer Price was determined through a book-building process and discussion among the Issuer, Joint Financial Advisors, Joint Global Coordinators and Bookrunners and the Joint Domestic Lead Underwriters and Joint Bookrunners.

## CAPITALIZATION

As of June 30, 2021, the Issuer's authorized capital stock was ₱5,050,000,000.00 divided into 5,050,000,000 Common Shares, each with a par value of ₱1.00. On June 30, 2021, the Board of Directors of the Issuer approved an amendment to its Articles of Incorporation to increase its authorized capital stock from ₱5,050,000,000 divided into 5,050,000,000 Common Shares to ₱5,300,000,000 divided into 5,300,000,000 Common Shares, representing an increase of ₱250,000,000 comprising 250,000,000 Common Shares (the "Capital Increase"). On August 10, 2021, the stockholders of the Issuer representing at least 2/3 of its total issued and outstanding capital stock approved the Capital Increase. The Philippine SEC approved the Capital Increase on August 25, 2021.

In relation to the Capital Increase, the Principal Shareholders each subscribed to 31,250,000 Common Shares. As a result and as of the date of this Prospectus, there are 4,212,366,000 Common Shares issued and outstanding.

The following table sets forth the Issuer's capitalization and indebtedness (i) as of June 30, 2021, (ii) as adjusted to reflect the Capital Increase, and (iii) as adjusted to give effect to the Offer at the Offer Price of ₱12.00 per Offer Share.

This table should be read in conjunction with SGP's combined audited financial statements as of June 30, 2021 and notes thereto, included elsewhere in this Prospectus.

	As of June 30, 2021		As of June 30, 2021 as Adjusted After Giving Effect to the Increase in Authorized Capital		As of June 30, 2021 as Further Adjusted After Giving Effect to the Offer	
	₱	U.S.\$	₱	U.S.\$	₱	U.S.\$
	(in millions)					
<b>Total Debt<sup>(2)</sup></b> .....	<u>141,205.8</u>	<u>2,908.8</u>	<u>141,205.8</u>	<u>2,908.8</u>	<u>141,205.8</u>	<u>2,908.8</u>
<b>Equity</b>						
Capital stock .....	<u>4,149.9</u>	<u>85.5</u>	<u>4,212.4</u>	<u>86.8</u>	<u>5,265.9</u>	<u>108.5</u>
Additional paid-in capital .....	<u>77,700.9</u>	<u>1,600.6</u>	<u>77,700.9</u>	<u>1,600.6</u>	<u>89,289.4</u>	<u>1,839.4</u>
Hedging reserve .....	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Premeasurements gains (losses) on defined benefit liability .....	<u>(60.4)</u>	<u>(1.2)</u>	<u>(60.4)</u>	<u>(1.2)</u>	<u>(60.4)</u>	<u>(1.2)</u>
Equity adjustments from common control transactions .....	<u>(73,359.2)</u>	<u>(1,511.2)</u>	<u>(73,359.2)</u>	<u>(1,511.2)</u>	<u>(73,359.2)</u>	<u>(1,511.2)</u>
Retained earnings .....	<u>60,696.9</u>	<u>1,250.3</u>	<u>60,696.9</u>	<u>1,250.3</u>	<u>60,696.9</u>	<u>1,250.3</u>
Equity Attributable to Equity Holders of the Company .....	<u>69,128.1</u>	<u>1,424.0</u>	<u>69,190.6</u>	<u>1,425.3</u>	<u>81,832.6</u>	<u>1,685.7</u>
Non-controlling interest .....	<u>28,841.8</u>	<u>594.1</u>	<u>28,841.8</u>	<u>594.1</u>	<u>28,841.8</u>	<u>594.1</u>
<b>Total Equity</b> .....	<u><b>97,969.9</b></u>	<u><b>2,018.2</b></u>	<u><b>98,032.4</b></u>	<u><b>2,019.5</b></u>	<u><b>110,674.4</b></u>	<u><b>2,279.9</b></u>
<b>Total Capitalization</b> .....	<u><b>239,175.7</b></u>	<u><b>4,927.0</b></u>	<u><b>239,238.2</b></u>	<u><b>4,928.3</b></u>	<u><b>251,880.2</b></u>	<u><b>5,188.7</b></u>

Notes:

(1) The translation of Philippine Peso amounts into U.S. dollars is provided for convenience only and is unaudited. Amounts in Philippine Pesos were converted to U.S. dollars using the BSP Daily Reference Exchange Rate as of June 30, 2021 of U.S.\$1.00=₱48.544. See "Exchange Rates."

(2) Comprised of loans payable – net of current portion and current portion of loans payable.

## DILUTION

If you invest in the Offer Shares, your interest will be diluted for each Offer Share you purchase to the extent of the difference between the offer price per Offer Share and the net tangible book value per Common Share after the Offer.

As of June 30, 2021, the net tangible book value per Common Share was ₱14.13 with a pro forma net tangible book value per Common Share of ₱13.94 after the approval of the Capital Increase on August 25, 2021. Net tangible book value per Common Share represents total assets (less goodwill) minus total liabilities and non-controlling interests divided by the total number of Common Shares outstanding.

After giving effect to the sale of the Firm Shares (at an Offer Price of ₱12.00 per Offer Share), and after deducting estimated commissions, fees and expenses of the Offer, the net tangible book value per Common Share would be ₱13.47 per Offer Share. At the Offer Price of ₱12.00, the Common Shares will be purchased at a discount of ₱1.47 to net tangible book value per Common Share.

The following table illustrates dilution on a per Common Share at the Offer Price of ₱12.00 per Offer Share assuming full exercise of the Overallotment Option:

<b>Offer Price per Offer Share</b> .....	<b>₱12.00</b>
Pro Forma Net tangible book value per Common Share as of June 30, 2021 .....	₱13.94
Net tangible book value per Common Share as adjusted after the Offer .....	₱13.47
Dilution to investors in the Offer .....	₱1.47

The following table sets forth the shareholdings, and percentage of Common Shares outstanding, of existing and new shareholders immediately after completion of the Offer, assuming the Overallotment Option is not exercised:

	<u>Number of Shares</u>	<u>%</u>
Existing shareholders .....	4,212,366,000	79.99
New investors .....	1,053,500,000	20.01
<b>Total</b> .....	<b>5,265,866,000</b>	<b>100.0</b>

The following table sets forth the shareholdings, and percentage of Common Shares outstanding, of existing and new shareholders immediately after completion of the Offer, assuming full exercise of the Overallotment Option:

	<u>Number of Shares</u>	<u>%</u>
Existing shareholders .....	4,111,366,000	78.08
New investors .....	1,154,500,000	21.92
<b>Total</b> .....	<b>5,265,866,000</b>	<b>100.0</b>

See “Risk Factors—Risks Relating to the Offer Shares—Future sales of Shares in the public market could adversely affect the prevailing market price of the Common Shares and shareholders may experience dilution in their holdings” and “—Investors may incur immediate and substantial dilution as a result of purchasing Common Shares in the Offer” on page 65 of this Prospectus.

## SELECTED FINANCIAL AND OPERATING INFORMATION

The following tables present the summary of financial information and should be read in conjunction with the independent auditors' reports and the Group's consolidated financial statements, including the notes thereto, included elsewhere in this Prospectus, and the section entitled "Management's Discussion and Analysis of Financial Condition and Results of Operations." The summary financial information as of and for the years ended December 31, 2020, 2019 and 2018, as of and for the years ended December 31, 2018 and 2017 and for the six months ended June 30, 2021 were derived from the Group's consolidated audited financial statements, which were prepared in accordance with PFRS and were audited by RGM in accordance with the PSA.

The Share Swap transaction wherein the Issuer issued Common Shares in exchange for the shares of stocks of OneTaipan and Pacifica21 resulted in a business combination involving OneTaipan and Pacifica21, including NGCP. SGP is considered to be a business combination of entities under common control as the two Principal Shareholders jointly control SGP, OneTaipan, Pacifica21 and NGCP before and after the Share Swap transaction. Accordingly, the consolidated financial information of the Group were restated as a result of the retrospective application of the accounting for business combination 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. The consolidated financial statements as of December 31, 2020 and 2019 and for the years ended December 31, 2020, 2019 and 2018, and as of and for the years ended December 31, 2018 and 2017 were restated as if the entities had always been combined for the periods that the entities were under common control. See note 6 of the 2020 audited financial statements elsewhere in this Prospectus.

The summary financial information below is not necessarily indicative of the results of future operations. Furthermore, the translation of Philippine Peso amounts into U.S. dollars is provided for convenience only and is unaudited. Amounts in Philippine Pesos were converted to U.S. dollars using the BSP Daily Reference Exchange Rate as of June 30, 2021 of U.S.\$1.00 = ₱48.544.

### SUMMARY STATEMENTS OF COMPREHENSIVE INCOME

	For the years ended December 31,				For the six-month period ended June 30,		
	2018	2019	2020	2020 (unaudited)	2020 (unaudited)	2021 (unaudited)	2021 (unaudited)
	(in millions of ₱)			(in millions of U.S.\$)	(in millions of ₱)	(in millions of ₱)	(in millions of U.S.\$)
<b>REVENUES – NET ....</b>	45,402.0	45,396.5	48,606.6	1,001.29	24,183.1	24,186.2	498.2
<b>EXPENSES .....</b>	17,672.2	18,179.1	19,042.6	392.28	9,554.3	8,915.4	183.7
<b>INCOME FROM OPERATIONS .....</b>	27,729.8	27,217.5	29,564.0	609.01	14,628.9	15,270.8	314.6
<b>OTHER INCOME (CHARGES) – NET .....</b>	(6,784.7)	(7,196.1)	(6,127.4)	(126.22)	(3,247.3)	(2,771.5)	(57.1)
<b>CONSTRUCTION REVENUE AND COSTS .....</b>	-	-	-	-	-	-	-
<b>NET INCOME BEFORE TAX .....</b>	20,945.1	20,021.4	23,436.6	482.8	11,381.5	12,499.3	257.5
<b>INCOME TAX EXPENSE .....</b>	0.2	1.1	0.8	0.0	0.5	0.2	0.0
<b>NET INCOME .....</b>	20,945.0	20,020.2	23,435.8	482.77	11,381.0	12,499.1	257.5

	For the years ended December 31,				For the six-month period ended June 30,		
	2018	2019	2020	2020 (unaudited)	2020 (unaudited)	2021 (unaudited)	2021 (unaudited)
	(in millions of ₱)			(in millions of U.S.\$)	(in millions of ₱)	(in millions of ₱)	(in millions of U.S.\$)
<b>Attributable to:</b>							
Equity holders of the Parent Company.....	8,407.7	8,042.1	9,394.8	193.5	4,558.3	5,012.1	103.2
Non-controlling interests.....	12,537.2	11,978.1	14,041.0	289.2	6,822.7	7,487.0	154.2
<b>BASIC AND DILUTED EARNINGS PER SHARE</b>	<b>2.03</b>	<b>1.94</b>	<b>2.26</b>	<b>N/A</b>	<b>1.10</b>	<b>1.21</b>	<b>N/A</b>

## SUMMARY STATEMENTS OF FINANCIAL POSITION

	As of December 31,				As of June 30,	
	2018	2019	2020	2020 (unaudited)	2021 (in millions of ₱)	2021 (unaudited) (in millions of U.S.\$)
	(in millions of ₱)			(in millions of U.S.\$)		
<b>Noncurrent assets:</b>						
Intangible asset – net ...	210,687.5	234,827.7	267,754.7	5,515.7	281,837.1	5,805.8
Property and equipment – net.....	3,729.2	4,175.9	3,974.9	81.9	3,968.0	81.7
Deferred input VAT.....	76.4	-	-	-	-	-
Receivables – net of current portion.....	1.5	169.4	102.6	2.1	70.9	1.7
Goodwill.....	10,471.6	10,471.6	10,471.6	215.7	10,471.6	215.7
Other noncurrent assets	-	159.8	146.5	3.0	139.7	2.9
<b>Total noncurrent assets</b>	<b>224,966.2</b>	<b>249,804.5</b>	<b>282,450.4</b>	<b>5,818.4</b>	<b>296,487.4</b>	<b>6,103.5</b>
<b>Current assets:</b>						
Cash and cash equivalents.....	13,626.3	16,015.4	14,081.2	290.1	9,816.9	202.2
Receivables – net.....	10,277.6	9,186.4	13,577.6	279.7	14,722.3	303.3
Prepaid expenses and other current assets.....	26,672.9	32,393.4	34,503.0	710.8	26,759.0	551.2
Derivative asset.....	-	-	-	-	-	-
<b>Total current assets....</b>	<b>50,576.8</b>	<b>57,595.3</b>	<b>62,161.8</b>	<b>1,280.5</b>	<b>51,298.2</b>	<b>1,056.7</b>
<b>Total assets.....</b>	<b>275,543.0</b>	<b>307,399.7</b>	<b>344,612.2</b>	<b>7,099.0</b>	<b>347,785.6</b>	<b>7,164.3</b>
<b>Noncurrent liabilities:</b>						
Loans payable – net of current portion.....	94,350.6	116,623.9	122,503.9	2,523.6	126,484.6	2,605.6
Retirement benefits liability.....	1,055.0	1,615.9	2,027.1	41.8	1,886.0	38.9
Customers' and other deposits.....	319.8	345.6	400.9	8.3	396.2	8.2
Concession fee payable	54,319.1	54,319.1	54,319.1	1,119.0	54,319.1	1,119.0

	As of December 31,				As of June 30,	
	2018	2019	2020	2020 (unaudited)	2021	2021 (unaudited)
	(in millions of ₱)			(in millions of U.S.\$)	(in millions of ₱)	(in millions of U.S.\$)
				1,119.0		1,119.0
Other noncurrent liabilities	2,471.0	1,842.3	1,767.7	36.4	1,590.0	32.8
<b>Total noncurrent liabilities</b>	<b>152,515.5</b>	<b>174,746.8</b>	<b>181,018.7</b>	<b>3,729.0</b>	<b>184,675.8</b>	<b>3,804.3</b>
<b>Current liabilities:</b>						
Trade and other current payables	32,338.0	34,563.9	50,931.4	1,049.1	39,762.6	819.5
Current portion of loans payable	8,927.6	11,544.9	13,181.5	271.5	14,721.2	303.3
Other current liabilities	8,227.3	8,205.3	9,830.9	202.5	10,656.0	219.5
<b>Total current liabilities</b>	<b>49,492.8</b>	<b>54,314.0</b>	<b>73,943.8</b>	<b>1,523.2</b>	<b>65,139.8</b>	<b>1,341.9</b>
<b>Total liabilities</b>	<b>202,008.3</b>	<b>229,060.8</b>	<b>254,962.4</b>	<b>5,252.2</b>	<b>249,815.6</b>	<b>5,146.2</b>
<b>Equity</b>						
Capital stock	4,149.9	4,149.9	4,149.9	85.5	4,149.9	85.5
Additional paid-in capital	77,907.6	77,907.6	77,907.6	1,604.9	77,700.9	1,600.6
Hedging reserve	-	-	-	-	-	-
Premeasurements gains (losses) on defined benefit liability	1.9	(77.6)	(152.0)	(3.1)	(60.4)	(1.2)
Equity adjustments from common control transactions	(73,359.2)	(73,359.2)	(73,359.2)	(1,511.2)	(73,359.2)	(1,511.2)
Retained earnings	38,248.0	46,290.1	55,684.9	117.1	60,696.9	1,250.3
<b>Equity Attributable to Equity Holders of the Parent Company</b>	<b>46,948.2</b>	<b>54,910.7</b>	<b>64,231.2</b>	<b>1,323.2</b>	<b>69,128.1</b>	<b>1,424.0</b>
<b>Non-controlling interest</b>	<b>26,586.5</b>	<b>23,428.1</b>	<b>25,418.5</b>	<b>523.6</b>	<b>28,841.8</b>	<b>523.6</b>
<b>Total equity</b>	<b>73,534.7</b>	<b>78,338.9</b>	<b>89,649.7</b>	<b>1,846.8</b>	<b>97,969.9</b>	<b>2,018.2</b>
<b>Total liabilities and equity</b>	<b>275,543.0</b>	<b>307,399.7</b>	<b>344,612.2</b>	<b>7,099.0</b>	<b>347,785.6</b>	<b>7,164.3</b>

## SUMMARY STATEMENTS OF CASH FLOWS INFORMATION

	For the years ended December 31,				For the six-month period ended June 30,		
	2018	2019	2020	2020 (unaudited)	2020	2021	2021 (unaudited)
	(in millions of ₱)			(in millions of U.S.\$)	(in millions of ₱)		(in millions of U.S.\$)
Net cash provided by operating activities	35,612.9	33,350.5	44,069.1	907.8	11,368.3	3,915.5	80.7
Net cash used in investing activities	(33,865.8)	(39,363.1)	(41,610.5)	(854)	(9,234.5)	(9,478.3)	(200.8)
Net cash provided by (used in) financing activities	(6,673.1)	8,515.3	(4,290.5)	(88.4)	377.1	1,062.0	21.8
Effects of exchange rate changes on cash and cash equivalents	(68.7)	(113.5)	(102.3)	(2.1)	(181.4)	236.5	4.9

	For the years ended December 31,				For the six-month period ended June 30,		
	2018	2019	2020	2020 (unaudited)	2020	2021	2021 (unaudited)
	Net increase (decrease) in cash and cash equivalents.....	(4,994.7)	2,389.1	(1,934.2)	(39.8.)	2,329.3	(4,264.3)
Cash and cash equivalents at beginning of year / period.....	18,621.0	13,626.3	16,015.4	329.9	16,015.4	14,081.2	290.1
Cash and cash equivalents at end of year / period.....	13,626.3	16,015.4	14,081.2	290.1	18,344.8	9,816.9	202.2

## SUMMARY OF SELECTED OPERATING AND FINANCIAL INFORMATION

	As of and for the years ended December 31,			As of and for the six months ended June 30,	
	2018	2019	2020	2020	2021
Net Income (₱ millions)	20,945.0	20,020.2	23,435.8	11,381.0	12,499.1
<b>Attributable to:</b>					
Equity holders of the Parent Company	8,407.7	8,042.1	9,394.8	4,558.3	5,012.1
Non-controlling interests	12,537.2	11,978.1	14,041.0	6,822.7	7,487.0
Revenues – net	45,402.0	45,396.5	48,606.6	24,183.1	24,186.2
EBITDA <sup>(1)</sup>	35,991.6	36,122.2	39,070.3	19,347.4	20,266.4
EBITDA Margin <sup>(2)</sup>	79.3%	79.6%	80.4%	80.0%	83.8%
Return-on-Assets <sup>(3)</sup>	7.6%	6.5%	6.8%	6.6%	7.2%
Net Income Margin <sup>(4)</sup>	46.1%	44.1%	48.2%	47.1%	51.7%
Total Debt <sup>(5)</sup>	103,278.1	128,168.8	135,685.3	131,931.5	141,205.8
Debt-to-EBITDA <sup>(6)</sup>	2.9x	3.5x	3.5x	3.4x	3.5x

Notes: (1) EBITDA is Net income + Finance Costs + Tax Expense + Depreciation and Amortization.

(2) Calculated as EBITDA / Net Revenue

(3) Calculated as Net Income / Total Assets. In calculating Return on Assets, Net Income for the six months ended June 30, 2020 and June 30, 2021 have been annualized by multiplying the Net Income for the six months ended June 30, 2020 and June 30, 2021 by two.

(4) Calculated as Net Income / Net Revenue

(5) Comprised of loans payable – net of current portion and current portion of loans payable

(6) Calculated as Debt / EBITDA. In calculating Debt / EBITDA, EBITDA for the six months ended June 30, 2020 and June 30, 2021 have been annualized by multiplying the EBITDA for the six months ended June 30, 2020 and June 30, 2021 by two.

### EBITDA Reconciliation

The table below sets forth further information with respect to the computation of EBITDA for the years ended December 31, 2018, 2019 and 2020 and the six months ended June 30, 2020 and 2021:

	For the years ended December 31,				For the six months ended June 30,		
	(Audited)		(Unaudited)	(Audited)	(Unaudited)		
	2018	2019	2020	2020	2020	2021	2021
				(US\$ million)			(US\$ million)
		(₱ million)			(₱ million)		
Net Income.....	20,945.0	20,020.2	23,435.8	482.8	11,381.0	12,499.1	257.5
Add:							
Finance Cost <sup>(1)</sup> .....	6,640.2	7,261.8	6,556.3	135.1	3,468.8	3,055.8	62.9
Tax expense .....	0.2	1.1	0.8	0.0	0.5	0.2	0.0
Amortization .....	7,903.0	8,157.7	8,406.7	173.2	4,155.3	4,407.3	90.8
Depreciation.....	503.2	681.3	670.7	13.8	341.7	304.1	6.3
<b>EBITDA .....</b>	<b>35,991.6</b>	<b>36,122.2</b>	<b>39,070.3</b>	<b>804.8</b>	<b>19,347.4</b>	<b>20,266.4</b>	<b>417.5</b>

Notes:

(1) Finance costs for the years ended December 31, 2018, 2019 and 2020 and for the six months ended June 30, 2020 and 2021 pertain to interest expense.

## Key Operating Information of NGCP

### Power Transmission Network

	As of June 30, 2021			
	Transmission Line (CKM)	Substations	Substation Capacity (MVA)	Capacitor and Reactor Installations (MVAR)
Luzon	9,499	68	29,831	3,703
Visayas	5,379	43	5,724	872
Mindanao	5,855	34	6,141	453
<b>Total</b>	<b>20,732</b>	<b>145</b>	<b>41,696</b>	<b>5,027</b>

The table below sets out the contribution of regulated services and excluded services to total revenues for the period presented.

	For the year ended December 31,			For the six months ended June 30,			
	2018	2019	2020	2020	2021		
	(in millions)			(in millions)			
	₱		U.S.\$	₱		U.S.\$	
<b>Regulated Services</b>							
Power Delivery Services.....	40,982.1	40,885.8	44,128.8	909.0	21,920.5	21,937.8	451.9
System Operation Services*.....	2,681.4	2,774.3	2,740.7	56.5	1,399.6	1,380.7	28.4
Metering Services....	170.8	179.5	182.1	3.8	89.3	94.0	1.9
	43,834.3	43,839.6	47,051.6	20.0	23,409.4	23,412.5	482.2
<b>Excluded Services.....</b>	<b>1,567.7</b>	<b>1,556.9</b>	<b>1,555.0</b>	<b>32.0</b>	<b>773.7</b>	<b>773.7</b>	<b>15.9</b>
<b>Revenues.....</b>	<b>45,402.0</b>	<b>45,396.5</b>	<b>48,606.6</b>	<b>1,001.3</b>	<b>24,183.1</b>	<b>24,186.2</b>	<b>498.2</b>

\*Excluding ancillary services. NGCP does not earn revenue in the contracting of ancillary services. Ancillary services costs are direct pass-through costs to customers benefitting from ancillary services.

The table below sets out the contribution of each of the three Main Grids to NGCP's revenues for the periods indicated.

	For the year ended December 31,			For the six months ended June 30,					
	2018	2019	2020 <sup>(1)</sup>	2020 <sup>(1)</sup>	2021 <sup>(2)</sup>				
	(in millions)			(in millions)					
	₱		U.S.\$	%	₱	U.S.\$	%		
Luzon Grid	31,883.0	33,488.4	35,846.5	738.4	73.7	17,791.5	17,843.4	367.6	73.8
Visayas Grid	6,551.0	5,503.4	5,896.8	121.5	12.1	2,959.0	2,935.7	60.5	12.1

Mindanao									
Grid									
.....	<u>6,968.0</u>	<u>6,404.7</u>	<u>6,863.3</u>	<u>141.4</u>	<u>14.1</u>	<u>3,432.6</u>	<u>3,407.1</u>	<u>70.2</u>	<u>14.1</u>
<b>Total</b>									
.....	45,402	45,396.5	48,606.6	1,001.3	100.0	24,183.1	24,186.2	498.2	100.0

Notes: (1) Revenues for each of the Luzon, Visayas and Mindanao Grids excluding the allocation of accrued incremental iMAR based on actual billings was ₱33,661.6 million, ₱5,537.4 million and ₱6,445.0 million, respectively, for year ended December 31, 2020, and ₱16, 119.1 million, ₱2,680.9 million and ₱3,109.9 million, respectively, for the six months ended June 30, 2020.

(2) Revenues for each of the Luzon, Visayas and Mindanao Grids excluding the allocation of accrued incremental iMAR based on actual billings was ₱16, 639.9 million, ₱2,737.7 million and ₱3,177.3 million, respectively, for the six months ended June 30, 2021.

## MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

*Prospective investors should read this discussion and analysis of the Group's financial condition and results of operations in conjunction with the sections entitled "Summary Historical Financial Information" and "Selected Historical Financial Information" and with the audited consolidated financial statements as of December 31, 2020 and 2019 and for the years ended December 31, 2020, 2019 and 2018 (the "2020 audited financial statements"), and as of and for the years ended December 31, 2018 and 2017 (the "2018 audited financial statements") and the audited consolidated interim financial statements as of and for the six months ended June 30, 2021 and 2020 (the "2021 interim financial statements") in each case, including the notes relating thereto, included elsewhere in this Prospectus. The audited financial statements and the interim financial statements included in this Prospectus were prepared in compliance with PFRS.*

*The Share Swap transaction wherein the Issuer issued Common Shares in exchange for the shares of stocks of OneTaipan and Pacifica21 resulted in a business combination involving OneTaipan and Pacifica21, including NGCP. SGP is considered to be a business combination of entities under common control as the two Principal Shareholders jointly control SGP, OneTaipan, Pacifica21 and NGCP before and after the Share Swap transaction. Accordingly, the consolidated financial information of the Group were restated as a result of the retrospective application of the accounting for business combination 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.*

*The consolidated financial statements as of December 31, 2020 and 2019 and for the years ended December 31, 2020, 2019 and 2018, and as of and for the years ended December 31, 2018 and 2017 were restated as if the entities had always been combined for the periods that the entities were under common control. See note 6 of the 2020 audited financial statements elsewhere in this Prospectus.*

*This discussion contains forward-looking statements and reflects the Group's current views with respect to future events and financial performance. Actual results may differ materially from those anticipated in these forward-looking statements as a result of certain factors such as those set forth in the section entitled "Risk Factors" on page 39 and elsewhere in this Prospectus. See "Forward-Looking Statements" on page xi of this Prospectus.*

*The translation of Philippine Peso amounts into U.S. dollars is provided for convenience only and is unaudited. Amounts in Philippine Pesos were converted to U.S. dollars using the BSP Daily Reference Rate as of June 30, 2021 of U.S.\$1.00 = ₱48.544.*

### OVERVIEW

Synergy Grid & Development Phils., Inc. (the "Issuer", "SGP" or "Synergy"), a corporation organized and existing under Philippine law, is a holding company listed on the PSE under the symbol "SGP." The sole operating asset of SGP is the National Grid Corporation of the Philippines ("NGCP", the "Company"), which SGP holds through its direct and indirect shareholdings in the Intermediate Holding Companies (as defined below), and as of the date of this Prospectus, SGP indirectly controls 60% of the outstanding capital stock of NGCP through its subsidiaries, OneTaipan Holdings, Inc. ("OneTaipan") and Pacifica21 Holdings, Inc. ("Pacifica21"). In particular, OneTaipan indirectly holds an equity interest of 30% plus one share in NGCP through its wholly-owned company, Monte Oro Grid Resources Corporation ("Monte Oro") and Pacifica21 indirectly holds an equity interest of 30% minus one share in NGCP through its wholly-owned company, Calaca High Power Corporation ("Calaca") (each of OneTaipan, Pacifica21, Monte Oro and Calaca, are collectively referred to as the "Intermediate Holding Companies", and together with NGCP, the "Consolidated Subsidiaries").

NGCP is the sole and exclusive operator of the Philippines' nationwide transmission network linking power generators and distribution utilities to deliver electricity to end-users across Luzon, Visayas and Mindanao. NGCP is a privately-owned corporation responsible for operating, maintaining and developing the power transmission grid, an interconnected system of towers, substations, lines and other high voltage equipment (the "Grid"), that transmits gigawatts of power from where it is produced to where it is consumed.

As of June 30, 2021, NGCP's power transmission network had a total length of over 20,732 CKM, with 41,696 MVA substation capacity and 20,000 transmission towers operating in 67 provinces. NGCP's transmission superhighway of high-voltage transmission facilities range from 500kV, 230kV, 138kV, 115kV and 69kV lines

interconnected through 145 substations. The Company is also undertaking six island interconnection projects to connect major sub-grids with one another as of the date of this Prospectus. These island interconnection projects with currently expected completion dates from March 2022 to February 2026 are as follows: (i) Mindanao-Visayas Interconnection Project; (ii) Panay-Guimaras 138kV Interconnection Project; (iii) Negros-Panay Interconnection Project, Line 2; (iv) Cebu-Bohol 230kV Interconnection Project; (v) Batangas-Mindoro Interconnection Project (in conjunction with the Palawan-Mindoro Interconnection Project (presently at feasibility study stage)); and (vi) Quezon-Marinduque Interconnection Project. As of June 30, 2021, NGCP had a stable customer base of approximately 400 customers comprising Generator Customers (i.e., power generation companies which are connected to the NGCP system and authorized by the ERC to operate facilities used in the generation of electricity) and Load Customers (e.g., distribution utilities, electric cooperatives, directly-connected industries and other entities that receive supply and delivery of electricity for their own use or for distribution purposes). See “*Description of NGCP and Business of NGCP—Customers*” on page 205 for further details on the distinction between Generator Customers and Load Customers.

For the six months ended June 30, 2021 and for the years ended December 31, 2020, 2019 and 2018 the Group had consolidated revenues of ₱24,186.2 million (U.S.\$498.2 million), ₱48,606.6 million (U.S.\$1,001.3 million), ₱45,396.5 million and ₱45,402.0 million, respectively and net income of ₱12,499.1 million (U.S.\$257.5 million), ₱23,435.8 million (U.S.\$482.8 million), ₱20,020.2 million and ₱20,945.0 million, respectively, for the same periods.

The total net income attributable to equity holders of SGP was ₱5,012.1 million (U.S.\$103.2 million), ₱9,394.8 million (U.S.\$193.5 million), ₱8,042.1 million and ₱8,407.7 million for the six months ended June 30, 2021 and for the years ended December 31, 2020, 2019 and 2018, respectively.

## **FACTORS AFFECTING RESULTS OF OPERATIONS**

The Group’s results of operations are affected by various factors, trends, events and uncertainties, which may impact revenues from continuing operations. Set out below is a discussion of the most significant factors that have affected the Group’s results in the past, and which the Group expects to affect its results in the foreseeable future. Factors other than those discussed below could also have a significant impact on the results of operations and financial condition of the Group in the future.

The Group’s results of operations is not subject to seasonality. In particular, for NGCP, its service revenue is fixed and allocated to all NGCP customers and service is based on capacity, which is not subject to seasonality. In the last three years and in the six months ended June 30, 2021, there were no significant elements of revenue or loss that did not arise from the Group’s continuing operations.

### **The Concession Agreement**

The Concession Agreement, which is for a 25-year period starting on January 15, 2009 (the “**Commencement Date**”) and ending on January 15, 2034, has a remaining period of approximately 12.5 years as of June 30, 2021. The Concession Agreement may be extended for another 25 years, provided that the concession period shall not be extended beyond the 50th year from the Commencement Date or for longer than the term of the Franchise. The Franchise is for a term of 50 years from December 20, 2008.

Under the terms of the Concession Agreement, NGCP paid US\$3.95 billion to acquire the concession (the “**Concession Fee**”), with 25% payable at the Commencement Date with the balance payable to PSALM in semi-annual installments (“**Deferred Payments**”) in accordance with Schedule 5 of the Concession Agreement. The Concession Fee is recognized as part of intangible assets in the statements of financial position and is amortized over the remaining concession period.

The balance of the Concession Fee was converted to Philippine peso at a fixed exchange rate equal to ₱42.75 for every US dollar and payable in 40 semi-annual installments to PSALM with interest, and subject to adjustments, in accordance with the Concession Agreement. In July 2013, NGCP exercised its option to prepay a portion of the Concession Fee covering the period January 15, 2014 to January 15, 2024 (representing the 10th to 30th Deferred Payments), following which NGCP would be required to pay the subsequent semi-annual installments. As of June 30, 2021, the balance of the Concession Fee payable was ₱54,319.1 million (U.S.\$1,118 million).

For further details on the adjustments to the Concession Fee, see note 5 of the 2020 audited financial statements, the 2018 audited financial statements and , and the 2021 interim financial statements.

## Revenues from Regulated Transmission Services and Excluded Services

The Group derives revenues primarily from regulated transmission services and excluded services through its operation of the Grid, as provided under the Rules of Transmission Wheeling Rates (RTWR) and is subject to the PBR. While revenues from regulated transmission services are subject to MAR, excluded services are not subject to MAR or other regulatory caps.

For the six months ended June 30, 2021 and for each of the years ended December 31, 2020, 2019 and 2018, the Group derived 96.8%, 96.8%, 96.5% and 96.5% of revenues from regulated transmission services, respectively, while for the same periods, 3.2%, 3.2%, 3.5% and 3.5% of revenues were derived from excluded services, respectively.

## Rate Setting under the Rules for Setting Transmission Wheeling Rates (RTWR)

PBR is an internationally accepted method of rate setting that meets the requirements of the EPIRA. PBR is forward-looking and sets the MAR that NGCP can earn from the provision of Regulated Transmission Services for each five-year Regulatory Period. The RTWR requires the MAR to be smoothed to reduce the likelihood of price shocks to customers and revenue shocks to NGCP. Following an annual rate verification and validation process, and using a price control formula, the ERC sets the MAR that NGCP can bill its customers for each year in the Regulatory Period. As such, the Group's annual revenues are subject to the applicable MAR as well as permitted adjustments the PIS and Claims for Force Majeure Events under the RTWR, which in turn could affect the Group's net income and funds available for purposes of declaring dividends to shareholders.

## Maximum Annual / Allowable Revenue (MAR) and Interim MAR (iMAR)

While the Regulatory Reset Process for the 3rd Regulatory Period (2011 to 2015) was completed, the 4th Regulatory Reset Process for the period 2016 to 2020 and the 5th Regulatory Reset Process for the period 2021 to 2025 have been delayed and have not been completed. In respect of the 4th Regulatory Period, a series of public consultations were held in the cities of Davao, Cebu and Pasig in August 2014 but despite the preliminary activities undertaken, the 4th Regulatory Period Reset Process for the transmission business was not concluded. In respect of the 5th Regulatory Period, certain activities have commenced in the first quarter of 2021. See "*Description of NGCP and the Business of NGCP—Overview of Regulatory Framework—Rate Setting and the Regulatory Process*" on page 191. In spite of such delays, there will still be a Regulatory Reset Process pursuant to the RTWR and the coverage period will be subject to the "Issues Paper" to be promulgated by the ERC.

Generally, the methodology for the calculation of MAR is the same for each regulatory period pursuant to the RTWR and OATS Rules. See "*Description of NGCP and the Business of NGCP—Overview of Regulatory Framework—Rate Setting and the Regulatory Process*" on page 191.

The following summarizes the calculation of the MAR for the 3rd Regulatory Period.

The ERC calculated NGCP's annual revenue entitlements on a forward-looking basis as the sum of the following projected financial building blocks:

- Operating and maintenance expenditure (Opex);
- Taxes other than corporation tax (Taxm);
- Regulatory depreciation (RegDepn);
- Return on capital;
- Corporation tax (Taxp).

The value of the return on capital building block was calculated in accordance with the value of NGCP's Regulatory Asset Base (RAB) plus an allowance for working capital (WC) multiplied by the ERC's estimate of NGCP's weighted average cost of capital (WACC).

NGCP's maximum annual revenue entitlement (ARR) for each year of the third regulatory period was therefore:

$$ARR_t = Opex_t + Tax_{m,t} + RegDepn_t + [(RAB_t + WC_t) \times WACC] + Tax_{p,t}$$

The intent behind this framework was that an efficient and prudent operator should have an expectation that it will be able to recover, reasonably, its incurred costs in full. The recovery of efficient costs occurs in the corresponding year in the case of opex, financing costs and tax, and over the life of built assets in the case of capital costs.

In each case, the recovery of costs in full was subject to the ERC's right to challenge NGCP's expenditure and tax projections, NGCP's asset valuation and NGCP's estimate of its cost of capital. The ERC stated in its determination document that its objective in regulating NGCP's transmission charges is to ensure that "service is provided with the quality demanded by customers at a price that is comparable with that a provider would be able to charge for a similar service in a competitive environment."<sup>2</sup> To this end, the ERC devoted a sizeable amount of time over a two-year period to understanding, reviewing and – where necessary – adjusting NGCP's projected costs and revenues.

This experience illustrates that under business as usual, the review process that the ERC conducts at each regulatory reset is the single most important determinant of the profits that NGCP is able to earn and, hence, the value that it is able to extract out of the concession.

The Rules give the ERC a certain amount of discretion as to how it applies its challenge, meaning that the precise approach that the ERC takes when calculating each building block may vary from one reset to the next. The ERC's approach to calculating each term in the formula in its determination for the third regulatory period is summarised briefly in the table below.

**ERC Approach to Calculating NGCP's ARR for the Third Regulatory Period**

<i>Building block</i>	<i>Methodology</i>
Opex	The ERC engaged an expert consultant to conduct a full review NGCP's five-year opex projections. The ERC set the values of the Opex term in the ARR formula in line with its consultant's recommendations.
RAB	<p>NGCP's RAB was calculated using the formula:</p> $RAB_t = RAB_{0,t} + CAPEX_t - RegDepn_t - Disposals_t$ <p>where</p> <p>RAB<sub>0,t</sub> was the rolled forward asset value for year t-1</p> <p>Capex<sub>t</sub> was the ERC's forecast of capital expenditure in year t</p> <p>Disposals<sub>t</sub> was the ERC's forecast of receipts from disposals of assets in year t.</p> <p>The ERC engaged an expert consultant to value the transmission asset base as at 31 December 2008 on an optimised depreciated replacement cost basis. This valuation was used as the value for RAB<sub>2008</sub>.</p> <p>The ERC also engaged an expert consultant to conduct a full review of NGCP's planned capex. The ERC set the values of the Capex terms in the RAB formula in line with its consultant's recommendations.</p>
Land Capex	The ERC's Capex term excluded all expenditures on land related costs. These expenditures were identified as a separate line item.
RegDepn	Depreciation was calculated on a straight-line basis as the depreciated optimised replacement cost of NGCP's assets divided by remaining asset life.
WC	The ERC set NGCP's working capital allowance as a percentage of the ERC's forecast of annual Opex less an allowance for bad debts.

WACC	<p>The WACC was set in line with the ERC's estimate of the weighted average of NGCP's equity finance and debt finance costs.</p> <p>NGCP's cost of equity was calculated in accordance with the capital asset pricing model (CAPM) framework. The ERC's estimate of the cost of equity was 20.26%.*</p> <p>NGCP's cost of debt was calculated as a premium over Philippines government bond yields. The ERC's estimate of the cost of debt was 12.27%.</p> <p>The weights for the cost of equity and the cost of debt were 33% and 67%.</p> <p>The resulting WACC was 15.04% on a nominal, vanilla basis.</p>
Taxp	<p>Under the terms of its concession, NGCP does not pay income tax (NB: NGCP instead pays a franchise tax of 3% of its revenues). The ERC therefore set the value of Taxp to zero.</p>
Taxm	<p>The ERC made forecasts of NGCP's expected property tax and VAT payments.</p> <p>(The 3% national franchise tax was not included in the ARR but is recovered separately through a surcharge on customers' invoices.)</p>
Net efficiency adjustment	<p>The ERC's determination provided for a capex efficiency adjustment and an opex efficiency adjustment via which some of the financial benefit/disbenefit arising from NGCP's under-/over-spending against its allowances in the second regulatory period was carried over into the third regulatory period.</p> <p>The net value of this adjustment was negative. This was attributable principally to NGCP over-spending in 2010.</p>

Source: *Lantau Report*

\* The ERC approved Cost of Equity (mid-range) is 20.67%.

In the absence of the final determination of the price and control arrangements by the ERC (a “**Final Determination**”) for each of the 4th Regulatory Period and 5th Regulatory Period, alternative regulatory measures were taken such that ERC has provisionally granted authority to implement the 2016 interim MAR (“**2016 iMAR**”) in the amount of ₱43,789.0 million, which was implemented in years 2016 to 2019, and subsequently provisionally approved an incremental increase in the iMAR in 2020, resulting in the amount of ₱47,051.6 million effective on the April 2020 billing month (“**2020 iMAR**”). The billing of the incremental revenue increase, however, has been deferred in consideration of the situation brought about by the COVID-19 pandemic.

Following the easing of quarantine arrangements, NGCP gradually billed a portion of the 2020 iMAR differential in the total amount of ₱300 Million for both billing months of July and August 2020. However, in an Order dated July 28, 2020, the ERC directed the suspension of the billing of the 2020 iMAR providing, among others, that the demand forecast used in the determination was no longer valid and would need to be reassessed. In compliance with the Order dated July 28, 2020, NGCP discontinued the billing resulting in an unbilled 2020 iMAR differential in the amount of ₱2,962.6 million. On October 1, 2021, NGCP filed a Reiteratory Motion for Implementation of the 2020 iMAR with the ERC where it reiterated its request to (1) lift the July 28, 2020 Order on the ground that there has been a significant recovery and increase in demand and energy consumption since that Order was issued; (2) allow 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; (3) allow NGCP to recover the unbilled 2021 iMAR on top of the iMAR for 2022, to be implemented from April 2022 to December 2022; and (4) confirm that the approved 2020 iMAR level of ₱47,051 million 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.

In respect of NGCP's applications for iMAR, the formula adopted by NGCP was the one used by its predecessor, TRANSCO, when the ERC used the approved unbundled tariff in ERC Case No. 2001-901RC and the forecast demand for the calendar year 2003. In the ERC's December 2016 order on 2016 iMAR, ERC authorized NGCP to implement an iMAR for regulatory year 2016 using the pro tem formula and applied reduction factors. In the ERC's February 2020 Order on 2020 iMAR, the ERC adopted the methodology used in the determination of 2016 iMAR, but with certain modifications through the introduction of the CAPEX reduction factor, which is intended to further reduce the revenue to consider only Unplanned CAPEX Projects that are either 100% complete or are certified Energy Project of National Significance (EPNS).

Although the current iMAR being billed by NGCP may not necessarily reflect the level of revenues due to the Transmission Provider as the same was derived using an interim approach and was not subjected to the Regulatory Reset Process, which is otherwise required under the RTWR, NGCP believes that the manner by which the ERC will address this should be discussed thoroughly in its Issues Paper to be issued for the relevant regulatory period. Moreover, although a delay in the reset process has not been contemplated in the RTWR, and as such there is no express provision stating on how the recovery shall be made in such a case, it is fundamental in the intent of the RTWR that reasonable returns that are due to the Transmission Provider should be allowed to be recovered.

### ***Performance Incentive Scheme (PIS)***

The PIS provides NGCP an incentive to improve the quality of service provided to customers. Under the PIS, key indicators of service performance are monitored annually. See “*Description of NGCP and the Business of NGCP—Power Transmission Network—Grid Management and Maintenance—Performance Indices*” on page 200 for information on the ERC-approved Performance Indices for the 3rd Regulatory Period. The eight indices or indicators for the 3rd Regulatory Period are (i) system interruption severity index; (ii) frequency of tripping; (iii) system availability; (iv) frequency limit compliance; (v) voltage limit compliance; (vi) congestion availability indicator (for Luzon Grid only); (vii) ancillary services availability indicator; and (viii) customer satisfaction indicator. Should the quality of service performance be above targets set during the Regulatory Reset Process, NGCP 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. See “*Business—Overview of the Regulatory Framework—Rate Setting and the Regulatory Reset Process*” for further details.

In the absence of a Final Determination for the 4th Regulatory Period, 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 NGCP. However, once the Final Determination is concluded, the MAR may be subject to adjustments based on the PIS.

### ***Capital Expenditures***

The Group’s business is capital-intensive as it requires the expansion, maintenance and upgrading of the Grid to fulfill its function as transmission provider. As such, a significant amount of NGCP’s revenues is used to fund these capital expenditures.

The Group incurred capital expenditure of approximately ₱32,100.0 million, ₱35,268.0 million and ₱39,991.0 million (U.S.\$823.8 million), in the years ended December 31, 2018, 2019 and 2020, respectively. Substantially all of such capital expenditures are in connection with the construction, expansion, interconnection and upgrade the Grid and it is expected that the Group’s capital expenditure will continue to increase in order to continuously deliver reliable, quality and efficient transmission services to transmission customers. NGCP prepares an annual Transmission Development Plan, which includes its capital expenditure requirements. Capital expenditures are subject to the ERC’s approval.

Procedurally, capital expenditures are proposed by NGCP and approved by ERC during a Regulatory Reset Process. As an interim approach, the NGCP has sought approval and authority from the ERC for the implementation of its capital expenditure program for 2016 to 2025 through submitting each CAPEX Project Application to the ERC, for which the ERC grants a provisional authority or approval to implement.

For the year ending December 31, 2021, the Group expects to incur capital expenditure of approximately ₱38,955 million (U.S.\$802.5 million), of which ₱9,269 million (U.S.\$190.9 million) has been utilized as of June 30, 2021.

### ***Claims for Force Majeure Events (FME)***

In the occurrence of FME, transmission assets operated by NGCP may be damaged or destroyed. In such cases, increased costs incurred by NGCP, in addition to the maximum amounts that it is otherwise permitted to charge to its transmission customers through the MAR, are 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 a 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 NGCP to collect the FME Pass-Through Amount Charge from its Luzon and Mindanao Grid customers, and allowed FME 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 2011 to 2020, certain FME Claims were submitted to the ERC, which are pending review, and may impact the Final Determination. See note 23 of the 2020 audited financial statements and note 27 of the 2021 interim financial statements for further details on these FME claims.

## **Taxes**

In consideration of the franchise and rights granted by Republic Act No. 9511, NGCP is required to pay a franchise tax equivalent to 3% of all gross receipts 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.

As such, NGCP’s income from business activities included within the scope of its authority under Section 1 of its Franchise 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 the TRAIN Law (Section 86 (bbb)) changed the classification of NGCP from a non-VAT to VAT entity, which made all transactions affected therein to be subject to VAT. As such, effective January 1, 2018, all input taxes related to purchases of goods and services both for capital expenditures and operating expenses shall be considered as input VAT, deductible from the NGCP’s output VAT payable pursuant to the BIR rules and regulations. Output VAT is passed on to customers.

Under the Third Regulatory Period Final Determination under Clause 5.20, ERC Final Decision on Other Taxes, particularly Section 5.20.1 it is stated 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.” NGCP 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.

## **Regulatory Environment**

NGCP operates its business in a highly regulated environment and all aspects of its operations, from project implementation to transmission charges and revenue structure, are subject to regulation by the Government, acting primarily through the ERC. The Group’s ability to continue to operate in a commercially viable manner depends, in part, upon the regulatory environment and the ability to obtain a reasonable rate of return under the applicable rate setting structure, particularly under the MAR that is set for each Regulatory Period, which would determine the maximum amount of annual revenue that NGCP may derive for the regulated transmission services that it provides. See “—*Rate Setting under the Rules for Setting Transmission Wheeling Rates*” above for further details on regulated revenues.

Moreover, these regulatory requirements, which require the Group to meet operating standards and comply with operational restrictions, among others, or any new requirements or changes to existing requirements, affect the Group’s business strategies and financial performance. In addition, the Group incurs costs to ensure that the Grid

and the services provide to customers comply with such requirements and keep abreast with the latest technology, which results in ongoing capital expenditures.

### **Economic Conditions in the Philippines and Impact on System Demand**

All of the Group's revenues and most of the Group's expenses are derived from its operations in the Philippines and, therefore, the Group's financial condition and results of operations have been, and are expected to continue to be affected by the macroeconomic condition in the country

Any deterioration in the Philippine economy may adversely affect customer requirements and lead to a contraction in system demand. In addition, certain events such as the COVID-19 pandemic may impact the Rate Setting and Regulatory Reset Process. For example, the implementation of the 2020 iMAR was suspended by the ERC on the ground, among others, that the demand forecast used in the determination of the 2020iMAR was no longer valid and would need to be reassessed. Moreover, the COVID-19 pandemic may cause delays in construction activity, and delays in the rollout of the Group's CAPEX program.

### **BASIS OF PREPARATION AND SIGNIFICANT JUDGMENTS AND ESTIMATES**

The Group's financial information is prepared in conformity with PFRS. PFRS are based on International Financial Reporting Standards issued by the International Accounting Standards Board. PFRS consist of PFRS, Philippine Accounting Standards and Philippine Interpretations issued by the Financial Reporting Standards Council.

The Share Swap transaction wherein the Issuer issued Common Shares in exchange for the shares of stocks of OneTaipan and Pacifica21 resulted in a business combination involving OneTaipan and Pacifica21, including NGCP. SGP is considered to be a business combination of entities under common control as the two Principal Shareholders jointly control SGP, OneTaipan, Pacifica21 and NGCP before and after the Share Swap transaction. Accordingly, the consolidated financial information of the Group were restated as a result of the retrospective application of the accounting for business combination 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. The consolidated financial statements as of December 31, 2020 and 2019 and for the years ended December 31, 2020, 2019 and 2018, and as of and for the years ended December 31, 2018 and 2017 were restated as if the entities had always been combined for the period that the entities were under common control. See note 6 of the 2020 audited financial statements elsewhere in this Prospectus. The preparation of the financial statements in conformity with PFRS requires management to make judgments, estimates 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 estimated and the application of these policies and estimates. 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 financial statements are as follows:

- Determination of functional currency
- Classifying financial instruments
- Determining the fair value of financial instruments
- Service concession arrangements as operator
- Concession rights
- Determining the transaction price - regulated transmission services
- Estimating accrued transmission revenue
- Estimating allowance for impairment losses on receivables
- Estimating useful lives of property and equipment
- Estimating net realizable value of materials, spare parts and suppliers
- Estimating useful life of intangible asset
- Impairment of goodwill
- Estimating residual value of intangible assets

- Reliable measure of the recovery payment
- Estimating retirement benefits
- Impairment of nonfinancial assets
- Contingencies

For further details, see note 2 of the 2020 audited financial statements and the 2021 interim financial statements, included elsewhere in this Prospectus

## **SIGNIFICANT ACCOUNTING POLICIES**

Significant accounting policies are those that are both (i) relevant to the presentation of the Group's financial condition and results of operations and (ii) require management's most difficult, subjective or complex judgments, often as a result of the need to make estimates about the effect of matters that are inherently uncertain. As the number of variables and assumptions affecting the possible future resolution of the uncertainties increase, those judgments become even more subjective and complex.

In order to provide an understanding of how management forms its judgments about future events, including the variables and assumptions underlying its estimates, and the sensitivity of those judgments to different circumstances, the Group has identified its significant accounting policies in note 3 of the audited financial statements and the interim financial statements, included elsewhere in this Prospectus.

## **DESCRIPTION OF KEY LINE ITEMS**

The Group's results of operations with respect to the years ended December 31, 2017, 2018, 2019 and 2020 and the six months ended June 30, 2020 and 2021, are based on, and should be read in conjunction with, the audited financial statements and the interim financial statements, and related notes thereto, included elsewhere in this Prospectus.

### **Revenues - net**

Revenues - net comprises transmission services operating income, connection and residual sub-transmission income, and gain/ discount on transmission service.

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

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.

Gains on transmission service is due to the combined effect to several factors, such as exchange rate and levels of regulated and excluded services rates for dollar customers under Executed Order 666.

### **Expenses**

Expenses consist of:

- Amortization of intangible asset
- Salaries, wages and employee benefits
- Repairs and maintenance
- Donation for COVID-19 Preventive Drive
- Depreciation
- Supervision and regulatory fees
- Insurance
- Security and janitorial
- Communication, light and water
- Public relations and corporate social responsibility
- Outside services
- Transportation and travel

- Supplies and tools
- Representation and entertainment
- Fuel and oil
- Rent
- Provision for impairment losses on receivables
- Taxes and licenses
- Professional fees
- Meetings and conferences
- Advertising
- Director's fee
- Charitable contributions
- Filing fees
- Other taxes
- Miscellaneous

### Other Charges - Net

Other charges - net consists of (i) interest expense, (ii) interest income, (iii) foreign exchange gain (loss) - net, (iv) bank and finance charges, (v) loss on disposal of property and equipment and (vi) miscellaneous income/Expense.

### Construction Revenue and Costs

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 agrees 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 agrees to pay the contractors a fee under mutually agreed upon terms and conditions specified in the agreement. In compliance with the mandate under the Concession Agreement, the Group engages the services of third party contractors for its construction and upgrade services. Construction costs comprise of all expenses related to the construction contracts which are equal to construction revenues because it is already the fair value of the intangible asset recognized.

The Group recognizes construction costs and revenues in compliance with accounting standards specifically, 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 RTWR as approved by the ERC.

## RESULTS OF OPERATIONS

### Six months ended June 30, 2021 compared to six months ended June 30, 2020

	(Audited)			
	For the six months ended June 30,			
	2020	2021	2021	% Change
	(in millions of ₱)		(US\$ in millions)	
<b>Operation Services Revenues -</b>				
<b>Net</b> .....	24,183.1	24,186.2	498.2	0.0%
<b>Expenses</b> .....	9,554.3	8,915.4	183.7	(6.7)%
<b>Income from Operations</b> .....	<u>14,628.9</u>	<u>15,270.8</u>	<u>314.6</u>	<u>4.4%</u>
<b>Other Charges - Net</b>				
Interest expense.....	(3,468.8)	(3,055.8)	(62.9)	(11.9)%
Interest income.....	148.5	31.8	0.7	(78.6)%
Foreign exchange gain (loss) - net.....	141.3	112.6	2.3	(20.3)%

<b>(Audited)</b>				
<b>For the six months ended June 30,</b>				
	<b>2020</b>	<b>2021</b>	<b>2021</b>	<b>% Change</b>
	(in millions of ₱)		(US\$ in millions)	
Bank and finance charges .....	(98.6)	(103.6)	(2.1)	5.1%
Miscellaneous Income .....	30.3	243.5	5.0	703.6%
	<u>(3,247.3)</u>	<u>(2,771.5)</u>	<u>(57.1)</u>	<u>(14.7)%</u>
<b>Construction Revenue and Costs</b>				
Construction revenue .....	18,626.1	18,489.7	380.9	(0.7)%
Construction costs .....	<u>(18,626.1)</u>	<u>(18,489.7)</u>	<u>(380.9)</u>	<u>(0.7)%</u>
<b>Net Income before Tax.....</b>	<b>11,381.5</b>	<b>12,499.3</b>	<b>257.5</b>	<b>9.8%</b>
<b>Income Tax Expense .....</b>	<b>0.5</b>	<b>0.2</b>	<b>0.0</b>	<b>(60.0)%</b>
<b>Net Income .....</b>	<b>11,381.0</b>	<b>12,499.1</b>	<b>257.5</b>	<b>9.8%</b>
<b>Attributable to:</b>				
Equity holders of the Parent Company .....	4,558.3	5,012.1	103.2	10.0%
Non-controlling interests .....	6,822.7	7,487.0	154.2	9.7%

#### **Operation Services Revenues - Net**

Operation Services Revenues - Net remained stable at ₱24,186.2 million (US\$498.2 million) for the six months ended June 30, 2021 compared to ₱24,183.1 million for the six months ended June 30, 2020.

In particular, operation services revenues are broken down into transmission services operating income and connection and residual sub-transmission income as follows for the period indicated:

<b>(Audited)</b>				
<b>For the six months ended June 30,</b>				
	<b>2020</b>	<b>2021</b>	<b>2021</b>	<b>% Change</b>
	(in millions of ₱)		(US\$ in millions)	
Transmission services operating income .....	23,409.5	23,412.5	482.3	0.0
Connection and residual sub-transmission income .....	<u>773.6</u>	<u>773.7</u>	<u>15.9</u>	<u>0.0</u>
	24,183.1	24,186.2	498.2	

#### **Expenses**

Expenses decreased by 6.7% to ₱8,915.4 million (US\$183.7 million) in the six months ended June 30, 2021 from ₱9,554.3 million in the six months ended June 30, 2020, primarily due to the ₱1.0 billion donation to the Government for its COVID-19 preventive drive in the first half of 2020.

<b>(Audited)</b>				
<b>For the six months ended June 30,</b>				
	<b>2020</b>	<b>2021</b>	<b>2021</b>	<b>% Change</b>
	(in millions of ₱)		(US\$ in millions)	
<b>Expenses</b>				
Amortization of intangible asset .....	4,155.3	4,407.3	90.8	6.1%
Salaries, wages and employee benefits .....	2,055.1	2,156.2	44.4	4.9%
Donation for COVID-19 Preventive Drive .....	1000.0	0.0	0.0	100.0%
Repairs and maintenance .....	416.0	455.3	7.0	9.4%
Depreciation .....	341.7	304.1	6.3	(11.0)%

(Audited)				
For the six months ended June 30,				
	2020	2021	2021	% Change
	(in millions of ₱)		(US\$ in millions)	
Insurance .....	208.7	247.1	5.0	18.4%
Security and janitorial.....	230.7	241.4	4.8	4.6%
Supervision and regulatory fees.....	234.2	234.2	4.3	0.0%
Communication, light and water.....	204.3	208.1	4.3	1.9%
Supplies and tools.....	78.4	139.8	2.3	78.3%
Public relations and corporate social responsibility.....	153.2	96.1	2.0	(37.3)%
Transportation and travel.....	75.7	92.7	1.5	22.5%
Representation and entertainment.....	81.9	70.8	0.9	(13.6)%
Fuel and oil.....	48.6	53.7	0.7	10.5%
Rent .....	41.2	44.3	0.9	7.5%
Outside services.....	92.2	36.0	2.0	(61.0)%
Taxes and licenses .....	38.9	36.0	1.9	(7.5)%
Provision for impairment losses on receivables.....	32.3	32.3	0.7	0.0%
Professional fees .....	36.3	29.4	0.2	(19.0)%
Advertising .....	7.4	8.6	0.2	16.2%
Director's fee .....	7.5	7.5	0.0	0.0%
Meetings and conferences.....	8.3	7.4	0.7	(10.8)%
Charitable contributions.....	0.6	1.7	0.6	183.3%
Filing fees .....	1.2	1.2	0.2	0.0%
Miscellaneous .....	4.3	4.2	0.1	(2.3)%
<b>Total</b>	<b>9,554.3</b>	<b>8,915.4</b>	<b>183.7</b>	<b>(6.7)%</b>

Amortization of intangible asset increased by 6.1% to ₱4,407.3 million in the six months ended June 30, 2021 (US\$90.8 million) from ₱4,155.3 million in the six months ended June 30, 2020 because of the amortization of additional completed projects. Salaries, wages and employment benefits increased by 4.9% to ₱2,156.2 million in the six months ended June 30, 2021 (US\$44.4 million) from ₱2,050.1 million in the six months ended June 30, 2020 because of the increase in Terminal leave, SSS and Retirement Benefits. Repairs and Maintenance increased by 9.4% to ₱455.3 million in the six months ended June 30, 2021 (US\$7 million) from ₱416.0 million in the six months ended June 30, 2020 because of the increase in maintenance computers, motor vehicles and Facilities Management Expense. Insurance increased by 18.4% to ₱247.1 million in the six months ended June 30, 2021 (US\$5 million) from ₱208.7 million in the six months ended June 30, 2020 because of the increase in premium for Industrial All Risk Insurance. Security and janitorial increased by 4.6% to ₱241.4 million in the six months ended June 30, 2021 (US\$4.8 million) from ₱230.7 million in the six months ended June 30, 2020 because wage increases billed in 2021. Communication, light and water increased by 1.9% to ₱208.1 million in the six months ended June 30, 2021 (US\$1.9 million) from ₱204.3 million in the six months ended June 30, 2020 because of the increase in average rate per KWH on Station use and additional internet subscription. Supplies and tools increased by 9.4% to ₱139.8 million in the six months ended June 30, 2021 (US\$44.4 million) from ₱78.4 million in the six months ended June 30, 2020 because of acquisition of COVID-19 vaccines and personal protective equipment.

### ***Income from Operations***

As a result of the foregoing, income from operations increased 4.4% to ₱15,270.8 million (US\$314.6 million) in the six months ended June 30, 2021 from ₱14,628.9 million in the six months ended June 30, 2020.

### ***Other Charges - Net***

Other charges - net decreased by 14.7% to ₱2,771.5 million in the six months ended June 30, 2021 from ₱3,247.3 million in the six months ended June 30, 2020, primarily due to a decrease in interest expense, interest income, and foreign exchange gain, partially offset by increases in bank and finance charges and miscellaneous income.

Interest expense decreased by 11.9% to ₱3,055.8 million in the six months ended June 30, 2021 from ₱3,468.8 million in the six months ended June 30, 2020, primarily due to the interest rate reset for the deferred payments to PSALM at the start of the 5<sup>th</sup> regulatory period at 5.313% from 6.5391% in the 4<sup>th</sup> regulatory period.

Interest income decreased by 78.6% to ₱31.8 million in the six months ended June 30, 2021 from ₱148.5 million in the six months ended June 30, 2020, primarily due to lower interest rates based on BSP rate cuts.

Foreign exchange gain decreased by 20.3% to ₱112.6 million in the six months ended June 30, 2021 from ₱141.3 million in the six months ended June 30, 2020, primarily due to net effect of decreasing FX rates on settlement of payables related to various CAPEX projects.

Bank and finance charges increased by 5.1% to ₱103.6 million in the six months ended June 30, 2021 from ₱98.6 million in the six months ended June 30, 2020, primarily due to availment of new loans in 2021.

Miscellaneous income increased by 703.6% to ₱243.5 million in the six months ended June 30, 2021 from ₱30.3 million in the six months ended June 30, 2020, primarily due to higher liquidated damages and lower Other financial expense.

### **Construction Revenue and Costs**

Construction revenue and construction costs remained stable, amounting to ₱18,489.7 million in the six months ended June 30, 2021 compared to ₱18,626.1 million in the six months ended June 30, 2020.

### **Income Tax Expense**

Income tax expense decrease to ₱0.2 million in the six months ended June 30, 2021 from ₱0.5 million in the six months ended June 30, 2020, primarily due to lower amount of income subject to income tax.

### **Net Income**

As a result of the foregoing, net income increased by 9.8% to ₱12,499.1 million (US\$257.5 million) in the six months ended June 30, 2021 from ₱11,381.0 million in the six months ended June 30, 2020.

### **Net Income Attributable to Equity Holders of SGP**

Net attributable to equity holders of SGP was increased in the six months ended June 30, 2021 to ₱5,012.1 million (US\$103.2 million) from ₱4,558.3 million in the six months ended June 30, 2020 due to increase in the Group's net income.

### **Year ended December 31, 2020 compared to year ended December 31, 2019**

	(Audited)			
	For the years ended December 31,			
	2019	2020	2020	% Change
	(in millions of ₱)		(US\$ in millions)	
<b>Revenues - Net</b> .....	45,396.5	48,606.6	1,001.3	7.1%
<b>Expenses</b> .....	18,179.1	19,042.6	392.3	4.7%
<b>Income from Operations</b> .....	27,217.5	29,564.0	1,001.3	8.6%
<b>Other Charges - Net</b>				
Interest expense.....	(7,261.8)	(6,556.3)	(135.1)	(9.7)%
Interest income.....	349.4	270.4	5.6	(22.6)%
Foreign exchange gain (loss) - net.....	(194.6)	311.9	6.4	(260.3)%
Bank and finance charges .....	(186.5)	(224.0)	(4.6)	20.1%
Loss on disposal of property and equipment.....	(7.8)	(1.3)		(83.3)%
Miscellaneous income.....	105.2	71.9	1.5	(31.7)%
	(7,196.1)	(6,127.4)	(126.2)	(14.9)%
<b>Construction Revenue and Costs</b>				
Construction revenue .....	32,297.8	41,236.9	849.5	27.7%
Construction costs.....	(32,297.8)	(41,236.9)	(849.5)	(27.7)%
	-	-	-	-

(Audited)				
For the years ended December 31,				
	2019	2020	2020	% Change
	(in millions of ₱)		(US\$ in millions)	
<b>Net Income before Tax.....</b>	20,021.4	23,436.6	482.8	17.1%
<b>Income Tax Expense .....</b>	(1.1)	(0.8)	0.0	(27.3)%
<b>Net Income .....</b>	<u>20,020.2</u>	<u>23,435.8</u>	<u>482.8</u>	<u>17.1%</u>
<b>Attributable to:</b>				
Equity holders of the Parent Company .....	8,042.1	9,394.8	193.5	16.8%
Non-controlling interests .....	11,978.1	14,041.0	289.2	17.2%

### Revenues - Net

Revenues - Net increased by 7.1% to ₱48,606.6 million (US\$1,001.3 million) in 2020 from ₱45,396.5 million in 2019 primarily driven by the incremental iMAR for 2020.

In particular, revenues are further broken down into transmission services operating income and connection and residual sub-transmission income as follows for the period indicated:

(Audited)				
For the year ended December 31,				
	2019	2020	2020	% Change
	(in millions of ₱)		(US\$ in millions)	
Transmission services operating income .....	43,789.0	47,051.6	969.3	7.5%
Connection and residual sub-transmission income .....	1,556.9	1,555.0	32.1	(0.1)%
Gain/ discount on transmission service .....	50.6	-	-	(100.0)%
	<u>45,396.5</u>	<u>48,606.6</u>	<u>1,001.3</u>	<u>7.1%</u>

The increase in transmission services operating income was primarily due to the incremental iMAR in 2020. Gain on transmission service decrease due to cessation of contract granting a special rate to Sunpower last December 2019.

### Expenses

Cost and expenses increased by 4.7% to ₱19,042.6 (US\$392.3 million) in 2020 from ₱18,179.1 million in 2019 primarily due to the donation to the Government the amount of ₱942.8 million to assist in its efforts to address the COVID-19 pandemic, of which approximately ₱500 million is in the form of food items and relief goods and the rest in medical supplies and equipment. In addition, there was increased spending on public relations and corporate social responsibility initiatives, representation and entertainment expenses and outside services in 2020 compared to 2019 because of financial assistance given to employees, meals expenses in relation to COVID-19 pandemic contingency measures and payment for consultancy services in relation to arbitration.

(Audited)				
For the years ended December 31,				
	2019	2020	2020	% Change
	(in millions of ₱)		(US\$ in millions)	
<b>Expenses</b>				
Amortization of intangible asset .....	8,157.7	8,406.7	173.2	3.1%
Salaries, wages and employee benefits .....	4,407.7	4,433.6	91.3	0.6%
Repairs and maintenance .....	1,533.0	1,320.8	27.2	(13.8)%
Donation for COVID-19 Preventive Drive ...	-	942.8	19.4	-
Depreciation.....	681.3	670.7	13.8	(1.6)%

<b>(Audited)</b>				
<b>For the years ended December 31,</b>				
	<b>2019</b>	<b>2020</b>	<b>2020</b>	<b>% Change</b>
	(in millions of ₱)		(US\$ in millions)	
Supervision and regulatory fees.....	468.4	468.4	9.6	0.0%
Insurance.....	423.0	455.3	9.4	7.6%
Security and janitorial.....	461.5	434.8	9.0	(5.8)%
Communication, light and water.....	423.9	340.7	7.0	(19.6)%
Public relations and corporate social responsibility .....	274.4	321.5	6.6	17.2%
Outside services.....	159.4	236.6	4.9	48.4%
Transportation and travel.....	344.4	187.7	3.9	(45.5)%
Supplies and tools.....	184.2	185.6	3.8	0.8%
Representation and entertainment.....	102.4	168.3	3.5	64.4%
Fuel and oil.....	152.5	101.5	2.1	(33.4)%
Rent.....	96.9	98.9	2.0	2.1%
Provision for impairment losses on receivables.....	64.7	64.7	1.3	0.0%
Taxes and licenses.....	69.1	66.6	1.4	(3.6)%
Professional fees.....	48.0	69.3	1.4	44.4%
Meeting and conferences.....	65.2	20.0	0.4	(69.3)%
Advertising.....	16.8	18.6	0.4	10.7%
Director's fee.....	15.0	15.0	0.3	0.0%
Charitable contributions.....	9.6	1.5	0.0	(83.9)%
Filing fees.....	2.0	1.3	0.0	(35.9)%
Other taxes.....	-	-	-	-
Miscellaneous.....	18.2	11.5	0.2	(36.9)%
<b>Total</b>	<b>18,179.1</b>	<b>19,042.6</b>	<b>392.3</b>	<b>4.8%</b>

The increase in cost and expenses primarily due to Donation for COVID-19 Preventive Drive. NGCP donated ₱942.8 million worth of goods and medical equipment in support of the Government's effort to combat the outbreak of COVID-19 and to aid medical frontliners.

#### ***Income from Operations***

As a result of the foregoing, income from operations increased 8.6% to ₱29,564.0 million (US\$1,001.3 million) in 2020 from ₱27,217.5 million in 2019.

#### ***Other Charges - Net***

Other charges - net decreased by 14.9% to ₱6,127.4 million in 2020 from ₱7,196.1 million in 2019, primarily due to a decrease in interest expense and increase in net foreign exchange gain offset by decrease in interest income and Miscellaneous income

Interest expense decreased 9.7% to ₱6,556.3 million in 2020 from ₱7,261.8 million in 2019 primarily due to diminishing outstanding balance of deferred payment on refinancing loan and lower interest on other borrowings due to delayed completion of projects, resulting in continuous capitalization of interest.

Interest income decreased by 22.6% to ₱270.4 million in 2020 from ₱349.4 million in 2019, primarily due to lower interest rates based on BSP rate cuts.

The Group recorded foreign exchange gain - net of ₱311.9 million in 2020 compared to foreign exchange loss - net of ₱194.6 million in 2019, primarily due to net effect of decreasing FX rates on settlement of payables related to various CAPEX projects.

Bank and finance charges increased by 20.1% to ₱224.0 million in 2020 from ₱186.5 million in 2019, primarily due to new loans availed in 2020.

Loss on disposal of property and equipment decreased to ₱1.3 million in 2020 from ₱7.8 million in 2019, primarily due to donation of wood poles from the NGCP warehouse.

Miscellaneous income decreased by 31.7% to ₱71.9 million in 2020 from ₱105.2 million in 2019, primarily due to lower liquidated damages.

### **Construction Revenue and Costs**

Construction revenue and construction costs increased by 27.7 % amounting to ₱41,236.9 million in 2020 compared to ₱32,297.8 million in 2019 primarily due to increase in on-going project cost.

### **Income Tax Expense**

Income tax expense decreased to ₱0.8 million in 2020 from ₱1.1 million in 2019, primarily due to lower amount of income subject to income tax.

### **Net Income**

As a result of the foregoing, net income increased by 17.1% to ₱23,435.8 million (US\$482.8 million) in 2020 from ₱20,020.2 million in 2019.

### **Net Income Attributable to Equity Holders of SGP**

Net income attributable to equity holders of SGP increased to ₱9,394.8 million (US\$193.5 million) in 2020 compared to ₱8,042.1 million in 2019 due to increase in the Group's net income.

### **Year ended December 31, 2019 compared to year ended December 31, 2018**

	(Audited)		
	For the years ended December 31,		
	2018	2019	% Change
	(in millions of ₱)		
<b>Revenues - Net</b> .....	45,402.0	45,396.5	0.0%
<b>Expenses</b> .....	17,672.2	18,179.1	2.9%
<b>Income from Operations</b> .....	27,729.8	27,217.5	(1.8)%
<b>Other Charges - Net</b>			
Interest expense.....	(6,640.2)	(7,261.8)	9.4%
Interest income.....	280.6	349.4	24.5%
Foreign exchange gain (loss) - net	(423.6)	(194.6)	(54.1)%
Bank and finance charges .....	(164.9)	(186.5)	13.1%
Loss on disposal of property and equipment .....	(0.2)	(7.8)	3800.0%
Miscellaneous income.....	163.5	105.2	(35.7)%
	<u>(6,784.7)</u>	<u>(7,196.1)</u>	6.1%
<b>Construction Revenue and Costs</b>			
Construction revenue .....	29,453.2	32,297.8	9.7%
Construction costs .....	<u>(29,453.2)</u>	<u>(32,297.8)</u>	9.7%
	-	-	
<b>Net Income before Tax</b> .....	<u>20,945.1</u>	<u>20,021.4</u>	(4.4)%
<b>Income Tax Expense</b> .....	<u>0.2</u>	<u>1.1</u>	609.8%
<b>Net Income</b> .....	<u>20,945.0</u>	<u>20,020.2</u>	(4.3)%
<b>Attributable to:</b>			
Equity holders of the Parent Company	<u>8,407.7</u>	<u>8,042.1</u>	(4.3)%
Non-controlling interests .....	<u>12,537.2</u>	<u>11,978.1</u>	(4.5)%

### **Revenues - Net**

Revenues - Net remained stable at ₱45,396.5 million in 2019 compared to ₱45,402.0 million in 2018 primarily driven by decrease in connection and residual sub-transmission charges by 0.7% due to sale of various sub-transmission assets, decrease in temporary transmission service discount by 3.1% due to lower actual consumption in 2019 with the effect of decreasing FX rate on US dollar denominated receivables. Offset by increase in

transmission services operating income by 0.02% to ₱43,789 million in 2019 from ₱43,782 million in 2018 as a result of increase in metering service charges based on increased number of metering points for new customers and increased demand for system operation charges.

In particular, revenues are further broken down into transmission services operating income and connection and residual sub-transmission income as follows for the period indicated:

(Audited)			
For the year ended December 31,			
	2018	2019	% Change
	(in millions of ₱)		
Transmission services operating income .....	43,782.1	43,789.0	0.0%
Connection and residual sub-transmission income .....	1,567.7	1,556.9	(0.7)%
Gain/ discount on transmission service .....	52.2	50.6	(3.1)%
	45,402.0	45,396.5	0.0%

The gain on transmission services is due to combined factors such as exchange rate and levels of regulated and excluded services rates for dollar customers.

### Expenses

Cost and expenses increased by 2.9% to ₱18,179.1 million in 2019 from ₱17,672.2 million in 2018. The increase was primarily attributable to increase in expenses for repairs and maintenance as a result of increase in expenses related to comprehensive maintenance and rehabilitation of *Dona Imelda and Las Pinas Gas Insulated Substations* and repair of leak on submarine cable sealing in *Allen Cable Terminal Station* and increase in depreciation due to increase in depreciation of other utility plant.

(Audited)			
For the years ended December 31,			
	2018	2019	% Change
	(in millions of ₱)		
<b>Expenses</b>			
Amortization of intangible asset.....	7,903.0	8,157.7	3.2%
Salaries, wages and employee benefits .....	4,227.2	4,407.7	4.3%
Repairs and maintenance.....	981.8	1,533.0	56.1%
Donation for COVID-19 Preventive Drive .....	-	-	-
Depreciation.....	503.2	681.3	35.4%
Supervision and regulatory fees .....	468.4	468.4	0.0%
Insurance .....	414.6	423.0	2.0%
Security and janitorial .....	634.2	461.5	(27.2)%
Communication, light and water .....	386.5	423.9	9.7%
Public relations and corporate social responsibility.....	332.9	274.4	(17.6)%
Outside services .....	168.4	159.4	(5.3)%
Transportation and travel .....	401.2	344.4	(14.2)%
Supplies and tools .....	199.8	184.2	(7.8)%
Representation and entertainment .....	135.3	102.4	(24.3)%
Fuel and oil .....	186.1	152.5	(18.1)%
Rent.....	276.4	96.9	(64.9)%
Provision for impairment losses on receivables	64.7	64.7	0.0%
Taxes and licenses.....	44.9	69.1	53.9%
Professional fees .....	48.1	48.0	(0.2)%
Meeting and conferences.....	130.6	65.2	(50.1)%
Advertising.....	22.4	16.8	(25.0)%
Director's fee .....	15.0	15.0	0.0%
Charitable contributions.....	9.1	9.6	5.5%
Filing fees .....	0.9	2.0	122.2%
Other taxes .....	100.6	-	100.0%

	(Audited)		
	For the years ended December 31,		
	2018	2019	% Change
	(in millions of ₱)		
Miscellaneous .....	16.6	18.2	9.6%
<b>Total</b>	<b>17,672.2</b>	<b>18,179.1</b>	<b>2.9%</b>

Repairs and Maintenance increased by 56.2% to ₱1,532 million in 2019 from ₱981 million in 2018 because of increase in expenses related to comprehensive maintenance and rehabilitation of *Dona Imelda and Las Pinas Gas Insulated Substations* and repair of leak on submarine cable sealing in *Allen Cable Terminal Station*. Also, an increase by 35.4% and 53.3% for Depreciation and Taxes and Licenses to ₱681 million and ₱69 million in 2019 from ₱503 million and ₱45 million in 2018 due to increase in depreciation of other utility plant and depreciation of other utility plant under finance lease, respectively. This is offset by decrease in Other Taxes and Rent by 100% and 64.9% from ₱101 million and ₱276 million in 2018 pursuant to the implementation of TRAIN Law in which Input VAT are recognized as asset and reclassification of vehicles and office space leases as finance lease, respectively.

### ***Income from Operations***

As a result of the foregoing, income from operations decreased 1.8% to ₱27,217.5 million in 2019 from ₱27,729.8 million in 2018.

### ***Other Charges - Net***

Other charges - net increased by 6.1% to ₱7,196.1 million in 2019 from ₱6,784.7 million in 2018, primarily due to increased, bank and finance charges and loss on disposal of property and equipment.

Interest expense increased 9.4% to ₱7,261.8 million in 2019 from ₱6,640.2 million in 2018 primarily due to prior year adjustments related to Interest During Construction (IDC) variances from CY2012-2017 and increased allocation of IDCs to interest expense in proportion to newly completed projects and implementation of the new standard on leases, PFRS 16 effective January 1, 2019.

Interest income increased by 24.5% to ₱349.4 million in 2019 from ₱280.6 million in 2018, primarily due to higher average ending cash balance for ten (10) investments and bank deposits and interest collected from defaulting customers.

The Group recorded foreign exchange loss - net of ₱194.6 million in 2019 compared to foreign exchange loss - net of ₱423.6 million in 2018, primarily due to decrease on realized gains/losses on foreign exchange and SWAP transactions.

Bank and finance charges increased by 13.1% to ₱186.5 million in 2019 from ₱164.9 million in 2018, primarily due to reclassification of debt issue cost and amortization of new loans availed in 2019.

Loss on disposal of property and equipment increased to ₱7.8 million in 2019 from ₱0.2 million in 2018, primarily due to disposal of obsolete and unproductive assets.

Miscellaneous income decreased by 35.7% to ₱105.2 million in 2019 from ₱163.5 million in 2018, primarily due to prior year adjustments related to interest during construction and deficiency tax payments to BIR for taxable year 2016 offset by increase in liquidated damages.

### ***Construction Revenue and Costs***

Construction revenue and construction costs increased by 9.7% amounting to ₱32,297.8 million in 2019 compared to ₱29,453.2 million in 2018 primarily due to increase in on-going project cost.

### ***Income Tax Expense***

Income tax expense decreased to ₱1.1 million in 2019 from ₱0.2 million in 2018, primarily due to lower amount of income subject to income tax.

## Net Income

As a result of the foregoing, net income decreased by 4.4% to ₱20,020.2 million in 2019 from ₱20,945.0 million in 2018.

## Net Income Attributable to Equity Holders of SGP

Net income attributable to equity holders of SGP decreased to ₱8,042.1 million in 2019 compared to ₱8,407.7 million in 2018 due to decrease in the Group's net income.

## Year ended December 31, 2018 compared to year ended December 31, 2017

	(Audited)		
	For the years ended December 31,		
	2017	2018	% Change
	(in millions of ₱)		
<b>Revenues - Net</b> .....	45,410.0	45,402.0	(0.02)%
<b>Expenses</b> .....	17,865.1	17,672.2	(1.1)%
<b>Income from Operations</b> .....	27,544.9	27,729.8	0.7%
<b>Other Charges - Net</b>			
Interest expense.....	(6,530.7)	(6,640.2)	1.7%
Interest income.....	210.3	280.6	33.4%
Foreign exchange gain (loss) - net	(435.4)	(423.6)	(2.7)%
Bank and finance charges .....	(200.4)	(164.9)	(17.7)%
Loss on disposal of property and equipment .....	(0.0)	(0.2)	566.67%
Reversal of impairment input VAT .....	0.2	-	(100.0)%
Miscellaneous income.....	(29)	163.5	(663.79)%
	(6,985.0)	(6,784.7)	(2.9)%
<b>Construction Revenue and Costs</b>			
Construction revenue .....	10,304.4	29,453.2	185.8%
Construction costs.....	(10,304.4)	(29,453.2)	(185.8)%
<b>Net Income before Tax</b> .....	20,559.9	20,945.1	1.9%
<b>Income Tax Expense</b> .....	0.1	0.2	100%
<b>Net Income</b> .....	20,559.7	20,945.0	1.9%
<b>Attributable to:</b>			
Equity holders of the Parent Company	8,250.9	8,407.7	1.9%
Non-controlling interests .....	12,308.8	12,537.2	1.9%

## Revenues - Net

Revenues - Net decreased by 0.02% to ₱45,402.0 million in 2018 from ₱45,410 million in 2017 primarily driven by lower transmission services operating income partially offset by higher connection and residual sub-transmission income and higher gain on transmission service. In particular, Transmission Services Operating Income decreased by 0.2% to ₱43,782 million in 2018 from ₱43,862 million in 2017 as a result of booking and billing adjustments though both are based on Interim Maximum Allowable Revenue (iMAR) of ₱43.789 billion.

Connection and residual sub-transmission income increased by 0.2% to ₱1,568 million in 2018 from ₱1,565 million in 2017 due to credit notices for 2013 to 2016 issued in June 2017 for the confirmed non-existence of substation equipment at Batangas II Electric Cooperative (BATELEC II), Fernando Air Base (FAB) and Lipa Ice Plant (LIP) causing lower figure for 2017 offset by decrease in charges due to sale of sub-transmission assets.

Increase on Temporary Transmission Service Gain/(Discount) by 398.3% to ₱52 million due to:

- Gain of ₱31 million from Sunpower Philippines due to increase in actual consumption by 11% from 2017 to 2018 combined with higher forex rate in 2018 at USD: ₱52.79 from USD: ₱50.47 in 2017 which is a factor in determining the billing amount to Sunpower as a dollar denominated customer; and
- Discontinued discount from expired contract with Texas Instruments (TI) Clark and Baguio amounting ₱39 million.

In particular, revenues are further broken down into transmission services operating income and connection and residual sub-transmission income as follows for the periods indicated:

(Audited)			
For the year ended December 31,			
	2017	2018	% Change
	(in millions of ₱)		
Transmission services operating income .....	43,862.0	43,782.1	(0.2)%
Connection and residual sub-transmission income .....	1,565.5	1,567.7	0.1%
Gain/ discount on transmission service .....	(17.5)	52.2	398.3%
	<u>45,410.0</u>	<u>45,402.0</u>	<u>(0.02)%</u>

### **Expenses**

Cost and expenses decreased 1.1% to ₱17,672.2 million in 2018 from ₱17,865.1 million in 2017.

(Audited)			
For the years ended December 31,			
	2017	2018	% Change
	(in millions of ₱)		
<b>Expenses</b>			
Amortization of intangible asset	7,507.0	7,903.0	5.3%
Salaries, wages, and employees' benefits	4,086.8	4,227.2	3.4%
Repairs and maintenance	827.1	981.8	18.7%
Security and janitorial	837.0	634.2	(24.2)%
Depreciation and amortization	545.9	503.2	(7.8)%
Supervision and regulatory fees	468.4	468.4	0.0%
Insurance	424.0	414.6	(2.2)%
Transportation and travel	351.6	401.2	14.1%
Communication, light, and water	341.2	386.5	13.3%
Corporate Social Responsibility	340.0	332.9	(2.1)%
Rent	189.4	276.4	45.9%
Supplies and tools	201.4	199.8	(0.8)%
Fuel and oil	135.0	186.1	37.9%
Outside services	138.2	168.4	21.9%
Representation and entertainment	235.2	135.3	(42.5)%
Meetings and conferences	101.8	130.6	28.3%
Other taxes	887.7	100.6	(88.7)%
Provision for impairment losses on receivables	64.7	64.7	0.0%
Taxes and licenses	36.3	44.9	23.7%
Professional fees	56.8	48.1	(15.3)%
Advertising	56.9	22.4	(60.6)%
Director's fee	15.0	15.0	0.0%
Filing fees	0.9	0.9	0.0%
Miscellaneous Expenses	7.6	16.6	118.4%
Charitable contributions	9.0	9.1	1.1%
	<u>17,865.1</u>	<u>17,672.2</u>	<u>(1.1)%</u>

Amortization of Intangible Assets increased by 5.3% to ₱7,903 million in 2018 from ₱7,507 million in 2017 on account of newly completed projects. Salaries, wages, and employees' benefits increased by 3.4% to ₱4,227 million in 2018 from ₱4,087 million in 2017 due to merit increase in March 2018, increase in manpower by 70 and increase in Overtime/NSD charges. Repairs and maintenance increased by 18.7% to ₱981 million in 2018 from ₱827 million in 2017 following the implementation of Integrated Facilities Management system coupled with increase in fuel expenses as a result of additional excise tax imposed on petroleum products starting January 2018. Other Taxes decreased by 88.7% to ₱101 million in 2018 from ₱888 million in 2017 due to recognition of input tax (on purchases/services rendered) in accordance with TRAIN law.

### ***Income from Operations***

As a result of the foregoing, income from operations increased 0.7% to ₱27,730 million in 2018 from ₱27,545 million in 2017.

### ***Other Charges - Net***

Interest expense increased by 1.7% to ₱6,640 million in 2018 from ₱6,531 million in 2017, primarily due to reclassification of interest cost from Interest During Construction (IDC) to interest expense in line with the completion of relevant CAPEX projects.

Interest income increased by 33.8% to ₱281 million in 2018 from ₱210 million in 2017, primarily due to higher average short-term investments and bank deposits.

Foreign exchange loss - net decreased by 2.5% to ₱424 million in 2018 from ₱435 million in 2017, mainly from revaluations and settlements/payments.

Bank and finance charges decreased by 17.5% to ₱165 million in 2018 from ₱200 million in 2017 resulting from the recalibration of loan terms/tenor used.

Loss on disposal of property and equipment increased by 500.0% to ₱0.18 million in 2018 from ₱0.03 million in 2017, primarily due to lost/damaged equipment written off in 2018.

Miscellaneous income (net) increased by 664.0% to ₱164 million in 2018 from ₱29 million (loss) in 2017, primarily due to decreases in Other Financial Expense and Realized Loss from SWAP resulting from 9th and final repayment of the CCS Term Loan upon its maturity in July 2018.

### ***Construction Revenue and Costs***

Construction revenue and construction costs increased by 185.8% amounting to ₱29,453.2 million in 2018 compared to ₱10,304.5 million in 2017 primarily due to increasing cost of on-going/completed projects.

### ***Income Tax Expense***

Income tax expense increased to ₱0.2 million in 2018 from ₱0.1 million in 2017, primarily due to higher amount of income subject to income tax.

### ***Net Income***

As a result of the foregoing, net income increased by 1.9% to ₱20,945.0 million in 2018 from ₱20,559.7 million in 2017.

### ***Net Income Attributable to Equity Holders of SGP***

Net income attributable to equity holders of SGP increased to ₱8,407.7 million in 2018 compared to ₱8,250.9 million in 2017 due to increase in the Company's net income.

## STATEMENT OF FINANCIAL POSITION

### As of June 30, 2021 compared to December 31, 2020

#### *Assets*

Total assets as of June 30, 2021 stood at ₱347,785.6 million (U.S.\$7,164.3 million), an increase of 0.9%, or ₱3,173.4 million, as compared to ₱344,612.2 million as of December 31, 2020. This increase was due to the following:

- Intangible asset - net increased by 5.3%, or ₱14,082.4 million, to ₱281,837.1 million as of June 30, 2021 from ₱267,754.7 million as of December 31, 2020 due to an increase in completed projects from ₱75,811.4 million as of December 31, 2020 to ₱80,631.4 million as of June 30, 2021 and an increase in the contract assets from ₱119.8 million as of December 31, 2020 to ₱133,492.4 million as of June 30, 2020, partially offset by the increase of the accumulated amortization.
- Receivables – net increased by 8.4%, or ₱1,144.7 million, to ₱14,722.3 million as of June 30, 2021 from ₱13,577.6 million as of December 31, 2020 due to an increase in the accrued transmission revenue from ₱4,596.9 million as of December 31, 2020 to ₱6,108.7 million as of June 30, 2021 and an increase of the output VAT receivable ₱1,857.5 million as of December 31, 2020 to ₱1,990.8 million as of June 30, 2021, partially offset by a decrease in the power receivables, a decrease in the due from customers, a decrease in the restructured power receivables and a decrease in the interest receivable.

The increase was partially offset by the following:

- Property and equipment - net decreased by 0.0%, or ₱6.9 million, to ₱3,968.0 million as of June 30, 2021 from ₱3,974.9 million as of June 30, 2020 mainly due to increase in Accumulated Depreciation Other Utility Plant.
- Receivables – net of current portion decreased by 30.9%, or ₱31.7 million, to ₱70.9 million as of June 30, 2021 from ₱102.6 million as of December 31, 2020 due to increase in Allowance for Bad Debts.
- Other noncurrent assets decreased by 4.6%, or ₱6.8 million, to ₱ 139.7 million as of June 30, 2021 from ₱146.5 million as of December 31, 2020 due to amortization of Deferred Input VAT.
- Cash and cash equivalents decreased by 30.3%, or ₱4,264.3 million, to ₱9,816.9 million as of June 30, 2021 from ₱14,081.2 million as of December 31, 2020 due to decrease in Cash in Bank and Working Fund.
- Prepaid expenses and other current assets decreased by 22.4%, or ₱7,744.0 million, to ₱26,759.0 million as of June 30, 2021 from ₱34,503.0 million as of December 31, 2020 due to decrease in Materials in Transit and Project Prepayment.

#### *Liabilities*

Total liabilities as of June 30, 2021 stood at ₱249,815.6 million (U.S.\$5,122 million), an decrease of 2.0%, or ₱5,146.8 million, as compared to ₱254,962.4 million as of December 31, 2020. This decrease was due to the following:

- Loans payable - net of current portion increased by 3.25%, or ₱3,980.7 million, to ₱126,484.6 million as of June 30, 2021 from ₱122,503.9 million as of December 31, 2020 mainly due to proceeds from new loans.
- Retirement benefits liability decreased by 7.0%, or ₱141.1 million, to ₱1,886.0 million as of June 30, 2021 from ₱2,027.1 million as of December 31, 2020 due to actuarial gains as a result of higher discount rate partially offset by service cost and interest expense for the period.
- Non-current customers' deposits decreased by 1.2%, or ₱4.7 million, to ₱396.2 million as of June 30, 2021 from ₱400.9 million as of December 31, 2020 due to additional security deposit of power customers.

- Concession fee payable is ₱54,319.0 million as of June 30, 2021 and 2020.
- Other non-current liabilities decreased by 10.1%, or ₱177.7 million, to ₱1,590.0 million as of June 30, 2021 from ₱1,767.7 million as of December 31, 2020 due to payments for Advances for Construction and Financing Lease.
- Trade and other current payables decreased by 21.9%, or ₱11,168.8 million, to ₱39,762.6 million as of June 30, 2021 from ₱50,931.4 million as of December 31, 2020 mainly due to decrease in settlement of GR/IR account, Accounts Payable and Accrued Expenses.
- Current portion of loans payable increased by 11.68%, or ₱1,539.7 million, to ₱14,721.2 million as of June 30, 2021 from ₱13,181.5 million as of December 31, 2020 due to reclassification of Non-current Loans Payable to Current Loans Payable and availment of new loans.
- Other current liabilities, net increased by 8.4%, or ₱825.1 million, to ₱10,656.0 million as of June 30, 2021 from ₱9,830.9 million as of December 31, 2020 due to increase in Retention on Contract Payments-Current.

### **As of December 31, 2020 Compared to December 31, 2019**

#### **Assets**

Total assets as of December 31, 2020 stood at ₱344,612.2 million (U.S.\$ 7,099.0 million), an increase of 12.1%, or ₱37,212.5 million, as compared to ₱307,399.7 million as of December 31, 2019. This increase was due to the following:

- Intangible asset - net increased by 14.0%, or ₱32,927.0 million, to ₱267,754.7 million as of December 31, 2020 from ₱234,827.7 million as of December 31, 2019 due to an increase in the cost of completed projects from ₱71,490.9 million as of December 31, 2019 to ₱75,811.4 million as of December 31, 2020 and an increase in the computer software from ₱383.2 million as of December 31, 2019 to ₱480.1 million as of December 31, 2020, partially offset by an increase in the accumulated amortization from ₱80,249.2 million as of December 31, 2019 to ₱88,655.9 million as of December 31, 2020.
- Receivables - net increased by 47.8%, or ₱4,391.2 million, to ₱13,577.6 million as of December 31, 2020 from ₱9,186.4 million as of December 31, 2019 mainly due to an increase in the power receivables from ₱3,894.3 million as of December 31, 2019 to ₱3,980.4 million as of December 31, 2020, an increase in the accrued transmission revenue from ₱1,635.2 million as of December 31, 2019 to ₱4,596.9 million as of December 31, 2020 and an increase in due from customers from ₱2,132.6 million as of December 31, 2019 to ₱2,937.8 million as of December 31, 2020.
- Prepaid expenses and other current assets increased by 6.5%, or ₱2,109.6 million, to ₱34,503.0 million as of December 31, 2020 from ₱32,393.4 million as of December 31, 2019 due to additional Project prepayments for on-going projects and Other Court Deposits.

The increase was partially offset by the following:

- Property and equipment - net decreased by 4.8%, or ₱201.0 million, to ₱3,974.9 million as of December 31, 2020 from ₱4,175.9 million as of December 31, 2019 due to the Depreciation for the period is higher than the additions to Other Utility Plant.
- Receivables - net of current portion decreased by 39.4%, or ₱66.8 million, to ₱102.6 million as of December 31, 2020 from ₱169.4 million as of December 31, 2019, mainly due to a decrease in restructured power receivables from ₱1,446.9 million as of December 31, 2019 to ₱1,428.5 million as of December 31, 2020 and a decrease in power receivables from ₱148.0 million as of December 31, 2019 to ₱118.0 as of December 31, 2020.
- Other noncurrent assets decreased by 8.3%, or ₱13.3 million, to ₱146.5 million as of December 31, 2020 from ₱159.8 million as of December 31, 2019, mainly due to Amortizations for the period.

- Cash and cash equivalents decreased by 12.1%, or ₱1,934.2 million, to ₱14,081.2 million as of December 31, 2020 from ₱16,015.4 million as of December 31, 2019 due to higher usage on investing activities and lower cash provided by financing activities.

### *Liabilities*

Total liabilities as of December 31, 2020 stood at ₱254,962.4 million (U.S.\$5,252.2 million), an increase of 11.3%, or ₱25,901.6 million, as compared to ₱229,060.8 million as of December 31, 2019. This increase was due to the following:

- Loans payable - net of current portion increased by 5.0%, or ₱5,880.0 million, to ₱122,503.9 million as of December 31, 2020 from ₱116,623.9 million as of December 31, 2019 mainly due to an increase in the peso denominated term loan from ₱70,286.2 million as of December 31, 2019 to ₱85,521.3 million as of December 31, 2020.
- Retirement benefits liability increased by 25.4%, or ₱411.2 million, to ₱2,027.1 million as of December 31, 2020 from ₱1,615.9 million as of December 31, 2019 due to the current service cost, interest expense and actuarial loss for the period.
- Customers' and other deposits increased by 16.0%, or ₱55.2 million, to ₱400.9 million as of December 31, 2020 from ₱345.6 million as of December 31, 2019 mainly due to additional deposits from customers resulting from higher average billings.
- Trade and other current payables increased by 47.4%, or ₱16,367.5 million, to ₱50,931.4 million as of December 31, 2020 from ₱34,563.9 million as of December 31, 2019 including accounts payable ₱3.280 million and accruals ₱5,662 million set up for various projects, GRIR balances awaiting invoices from suppliers ₱5,720 million and payable to Ancillary Service providers/PSALM including VAT ₱1,000 million.
- Current Portion of loans payable increased by 14.2%, or ₱1,636.6 million, to ₱13,181.5 million as of December 31, 2020 from ₱11,544.9 million as of December 31, 2019 due to reclassification of Non-current loans payable account including debt issue cost of ₱13,366 million offset by ₱11,730 million principal repayments and availment of new loans.
- Other current liabilities, net increased by 19.8%, or ₱1,625.6 million, to ₱9,830.9 million as of December 31, 2020 from ₱8,205.3 million as of December 31, 2019 due to increase in Retention on Contract Payments-Current of ₱1,415 billion offset by decrease in Advances for Construction-Current of ₱22 million and Bidders/Performance/Bond of ₱18 million.

The increase was partially offset by the following:

- Other non-current liabilities decreased 4.0%, or ₱74.6 million, to ₱1,767.7 million as of December 31, 2020 from ₱1,842.3 million as of December 31, 2019 due to reclassification from Non-current to Current Finance Lease Liability account of ₱59 million and 2nd tranche payment of ₱15 million to South Luzon Thermal Energy Corporation for the acquisition of Salong Switchyard and 230kV Salong-Calaca Line.

### **As of December 31, 2019 Compared to December 31, 2018**

#### *Assets*

Total assets as of December 31, 2019 stood at ₱307,399.7 million, an increase of 11.6%, or ₱31,856.7 million, as compared to ₱275,543.0 million as of December 31, 2018. This increase was due to the following:

- Intangible asset - net increased by 11.5%, or ₱24,140.2 million, to ₱234,827.7 million as of December 31, 2019 from ₱210,687.5 million as of December 31, 2018 due to increase in asset under construction (net of reciprocal) of ₱24,336 million and intangible asset from completed projects of ₱7,961 million offset by recorded amortization amounting to ₱8,158 million.

- Property and equipment - net increased by 12.0%, or ₱446.7 million, to ₱4,175.9 million as of December 31, 2019 from ₱3,729.2 million as of December 31, 2018 due to newly acquired and issued other utility plant and capitalization of leased vehicles and office spaces at Vertis North in accordance with PFRS 16 amounting to ₱765 million and ₱305 million respectively offset by recorded depreciation of ₱618 million.
- Receivables - net of current portion increased by 11,193.3%, or ₱167.9 million, to ₱169.4 million as of December 31, 2019 from ₱1.5 million as of December 31, 2018 due to reclassification from due from customers on account of ancillary services to non-current power receivable of billed ancillary service charges to customers that are still in dispute pending ERC resolution.
- Goodwill remained unchanged at ₱10.5 million as of December 31, 2019.
- Cash and cash equivalents increased by 17.5%, or ₱2,389.1 million, to ₱16,015.4 million as of December 31, 2019 from ₱13,626.3 million as of December 31, 2018 resulting from internally generated cash flows of ₱33,350.5 million and proceeds from new bank loans availed of ₱34,300 million which were offset by cash outflows from investment in CAPEX of ₱38,426.1 million, dividend payments of ₱16,251.1 million, loan repayments of ₱9,409 million, settlement of obligations under lease liabilities of ₱124.2 million and net effect of exchange rates changes on cash and cash equivalent balance of ₱113.5 million.
- Offset by decrease in Receivables - net by 10.6%, or ₱1,091.2 million, to ₱9,186.4 million as of December 31, 2019 from ₱10,277.6 million as of December 31, 2018 due to lower due from customer on account of ancillary services providers, universal charges (PSALM) and FIT-ALL Charges (Transco) of ₱1,089 million mainly due to collections and reclassification to non-current receivable account, decreases in FX rate difference receivable of ₱205 million due to effect of decreasing FX rates from 52.724:USD1 on the outstanding FX balances under project prepayment accounts and receivables accounts.
- Prepaid expenses and other current assets increased by 21.4%, or ₱5,720.5 million, to ₱32,393.4 million as of December 31, 2019 from ₱26,672.9 million as of December 31, 2018 due to increase in materials in transit and related accounts of ₱5,129 million on account of purchased materials/items intended for various CAPEX projects, project prepayment by ₱799 million, other deposit-court account of ₱540 million, input vat of ₱533 million, other prepayment of ₱87.6 million, other advances of ₱13 million and cash in bank account for customers' deposits of ₱11.3 million offset by decrease in prepaid expenses of ₱67 million and security deposit of ₱2 million.

### ***Liabilities***

Total liabilities as of December 31, 2019 stood at ₱229,060.8 million, an increase of 13.4%, or ₱27,052.5 million, as compared to ₱202,008.3 million as of December 31, 2018. This increase was due to the following:

- Loans payable - net of current portion increased by 23.6%, or ₱22,273.3 million, to ₱116,623.9 million as of December 31, 2019 from ₱94,350.6 million as of December 31, 2018 due to ₱33,155 million non-current portion of ₱34,300 million loan availment in 2019 offset by deferred debt issue costs and reclassification to current loans payable account of ₱10,882 million.
- Retirement benefits liability increased by 53.2%, or ₱560.9 million, to ₱1,615.9 million as of December 31, 2019 from ₱1,055.0 million as of December 31, 2018 due to recorded retirement costs based on Miravite 2019 Actuarial Report including past service cost adjustment of ₱619 million partially offset by actual retirement paid amounting to ₱58 million.
- Non-current customers' and other deposits increased by 8.1%, or ₱25.9 million, to ₱345.6 million as of December 31, 2019 from ₱319.8 million as of December 31, 2018 due to additional deposits based on revised limit and new connections.
- Concession fee payable as of December 31, 2019 remained at the same level as last year's at ₱54,319.1 million.
- Other current liabilities, net increased by 0.3%, or ₱22.0 million, to ₱8,205.3 million as of December 31, 2019 from ₱8,227.3 million as of December 31, 2018 due to increase in retention on contract payments-

current of ₱627.5 million, advances for construction-current of ₱459.2 million and bidders/performance bond of ₱102 million.

- Trade and other current payables increased by 6.9%, or ₱2,225.9 million, to ₱34,563.9 million as of December 31, 2019 from ₱32,338.0 million as of December 31, 2018 due to higher GR/IR clearing account of ₱6,861 million, accounts payable of ₱791 million interest on loans payable ₱222 million, output VAT payable of ₱130 million, finance lease contract liability of ₱110 million, employee benefits payable ₱112 million and other payable accounts of ₱4 million due to increased SSS and Philhealth contributions offset by decrease in accrued expenses-others of ₱4.118 billion, due to ancillary services providers/PSALM-universal charges/Transco FIT-All charges of ₱1.549 billion. FX rate difference payable of ₱158 million expanded withholding tax payable of ₱100 million and withholding tax on compensation of ₱41 million.
- Current portion of loans payable increased by 29.3%, or ₱2,617.3 million, to ₱11,544.9 million as of December 31, 2019 from ₱8,927.6 million as of December 31, 2018 due to reclassification from non-current loans payable account of ₱10,925 million and current portion of the proceeds from ₱34,300 million loans availed in 2019 amounting to ₱1,145 million offset by principal payments of ₱9,290 million and deferred debt issue cost (net of amortization) of ₱163 million.
- Offset by decrease in Other non-current liabilities by 25.4%, or ₱628.7 million, to ₱1.842.3 billion as of December 31, 2019 from ₱2.471.0 billion as of December 31, 2018 due to reclassification from non-current to current advances for construction account of ₱715.3 million representing the asset acquisition cost/amount which is due within one year partially offset by recorded finance lease liability of ₱86.6 million on existing vehicle leasing contract with remaining contract period of more than one (1) year as well as office leasing contract at Vertis North starting in January 2019 in accordance with PFRS 16.

#### **As of December 31, 2018 Compared to December 31, 2017**

##### ***Total Assets***

Total assets as of December 31, 2018 stood at ₱275,543.0, an increase of 9.9%, or ₱24,753.0 million, as compared to ₱250,789.5 million as of December 31, 2017. This increase was due to the following:

- Intangible asset - net increased by 11.4%, or ₱21,550.1 million, to ₱210,687.5 million as of December 31, 2018 from ₱189,137.4 million as of December 31, 2017 on account of newly completed projects such as Bataan 230kV Reinforcement Project (Reconductoring of Hermosa-Limay and Mexico-Hermosa Lines), Polanco 138kV Substation, Luzon Substation Reliability Project 1 (Labo Substation), Aurora-Polanco 138kV T/L (Line 1) and Ormoc-Babatngon 138kV T/L and build-up of costs related to ongoing 51 CAPEX projects.
- Property and equipment - net increased by 24.1%, or ₱723.6 million, to ₱3,729.2 million as of December 31, 2018 from ₱3,005.5 million as of December 31, 2017 due to newly acquired Other Utility Plants (OUPs).
- Receivables - net of current portion decreased by 99.3%, or ₱207.7 million, to ₱1.5 million as of December 31, 2018 from ₱209.2 million as of December 31, 2017 primarily due to collection of CY 2013-2014 unpaid power billings of Stronghold Steel Corporation and provision for impairment losses on receivables.
- Goodwill remained unchanged at ₱10.5 million as of December 31, 2018.
- Deferred input VAT increased to ₱76.4 million as of December 31, 2018 from nil as of December 31, 2017 due to the implementation of the TRAIN Law effective 2018.
- Cash and cash equivalents decreased by 26.8%, or ₱4,994.7 million, to ₱13,626.3 million as of December 31, 2018 from ₱18,621.0 million as of December 31, 2017 resulting from cash flows from Financing Activities of ₱6,673.1 million, cash flows from Investing Activities amounting to ₱33,865.8 million for capital expenditures and the effect of changes in exchange rate amounting to ₱68.7 million offset by the net cash provided by operating activities of ₱35,612.9 million.

- Prepaid expenses and other current assets increased by 33.8%, or ₱6,742.9 million, to ₱26,672.9 million as of December 31, 2018 from ₱19,930.0 million as of December 31, 2017 due to higher Project Prepayments and increase in Other Deposit Court related to ROW acquisitions.

### ***Total Liabilities***

Total liabilities as of December 31, 2018 stood at ₱202,008.3 million, an increase of 11.9%, or ₱21,545.1 million, as compared to ₱180,463.2 million as of December 31, 2017. This increase was due to the following:

- Loans payable - net of current portion increased by 18.9%, or ₱14,967.6 million, to ₱94,350.6 million as of December 31, 2018 from ₱79,383.0 million as of December 31, 2017 due to new loan availments
- Retirement benefits liability increased by 2.8%, or ₱28.8 million, to ₱1,055.0 million as of December 31, 2018 from ₱1,026.2 million as of December 31, 2017 due to based on 2018 Retirement Benefit cost as computed by Miravite less actual payments.
- Non-current customers' and other deposits increased by 5.9%, or ₱17.7 million, to ₱319.8 million as of December 31, 2018 from ₱302.1 million as of December 31, 2017 due to additional deposits based on revised limit and new connections.
- Concession fee payable as of December 31, 2018 remained at the same level as last year's at P54,319.1 million.
- Trade and other current payables increased by 44.5%, or ₱9,959.9 million, to ₱32,338.0 million as of December 31, 2018 from ₱22,378.1 million as of December 31, 2017 primarily due to increase in Accrued Expenses related CAPEX projects and recognition of Output VAT Payable on power billings following the implementation of TRAIN Law in 2018.
- Current portion of loans payable decreased by 25.6%, or ₱3,067.6 million, to ₱8,927.6 million as of December 31, 2018 from ₱11,995.2 million as of December 31, 2017 mainly due to principal repayments.
- Other current liabilities decreased by 3.7%, or ₱315.3 million, to ₱8,227.3 million as of December 31, 2018 from ₱8,542.6 million as of December 31, 2017 due to 2nd tranche payment to Phinma Renewable Energy Corporation in relation to asset acquisition.

## **LIQUIDITY AND CAPITAL RESOURCES**

### **Overview**

The Group has historically met its liquidity requirements principally through a combination of cash flows from operations, bank financings, and capital infusion. The Group's principal uses of cash have been, and are expected to continue to be, operating and maintenance costs relating to the Grid, as well as capital expenditures for the growth, expansion and upgrade of the Grid and related systems and infrastructure.

The Group believes that the operating cash flows, retained earnings, proceeds from this Offer and bank financings will be sufficient to fund working capital requirements, currently anticipated capital expenditures and debt service requirements for the next 12 months.

### **Cash Flows**

The following discussion of the Group's cash flows for 2017, 2018, 2019 and 2020, and for the six months ended June 30, 2020 and 2021 should be read in conjunction with the statements of cash flows included in the audited financial statements and interim financial statements.

	For the years ended December 31,				2020 (unaudited) (in millions of U.S.\$)	For the six-month period ended June 30,		
	2017	2018	2019	2020		2020	2021	2021 (unaudited)
	(in millions of ₱)					(in millions of ₱)		
Net cash provided by operating activities ...	36,972.4	35,612.9	33,350.5	44,069.1	907.8	11,368.3	3,915.5	80.7
Net cash used in investing activities....	(21,440.2)	(33,865.8)	(39,363.1)	(41,610.5)	(854)	(9,234.5)	(9,478.3)	(200.8)
Net cash provided by (used in) financing activities .....	(8,907.9)	(6,673.1)	8,515.3	(4,290.5)	(88.4)	377.1	1,062.0	21.8
Effects of exchange rate changes on cash and cash equivalents .	(0.7)	(68.7)	(113.5)	(102.3)	(2.1)	(181.4)	236.5	4.9
Net increase (decrease) in cash and cash equivalents.....	6,623.6	(4,994.7)	2,389.1	(1,934.2)	(39.8.)	2,329.3	(4,264.3)	87.8
Cash and cash equivalents at beginning of year / period .....	11,997.4	18,621.0	13,626.3	16,015.4	329.9	16,015.4	14,081.2	290.1
Cash and cash equivalents at end of year / period.....	18,621.0	13,626.3	16,015.4	14,081.2	290.1	18,344.8	9,816.9	202.2

#### ***Net cash provided by operating activities***

Net cash flows provided by operating activities were ₱3,915.5 million (U.S.\$80.7 million) in the six months ended June 30, 2021. Cash flow from operations includes operating income before working capital changes of ₱20,117 million, net increase in working capital changes of ₱12,421 million and interest receipts of ₱40.7 million which were offset by interest and retirement contribution payments of ₱3,672 million and ₱59 million, respectively. The changes in receivables is primarily due to the deferred collection of the incremental interim MAR. The changes in trade and current liabilities was mainly due to the availment of deferred payment to AS Providers during the ECQ period in 2020 as allowed by ERC, net of payment to AS Providers. In 2021, it is mainly due to the settlement of trade payables.

Net cash flows provided by operating activities were ₱44,069.1 million (U.S.\$907.8 million) in 2020. Cash flow from operations includes operating income before working capital changes of ₱39,129 million, net increase in working capital changes of ₱10,819 million and interest receipts of ₱303 million which were offset by interest and retirement contribution payments of ₱6,080 million and ₱57 million, respectively.

Net cash flows provided by operating activities were ₱33,350.5 million in 2019. Cash flow from operations includes operating income of ₱36,362 million with net increase in changes in working capital of ₱2,116 million and interest receipts of ₱348 million which were offset by interest payments of ₱7,040 million.

Net cash flows provided by operating activities were ₱35,612.9 million in 2018. Cash flow from operations includes operating income before working capital changes of ₱36,286 and interest receipts of ₱260 million which were offset by net decrease in working capital changes of ₱6,497 million and interest payments of ₱6,270 million.

Net cash flows provided by operating activities were ₱36,972.4 million in 2017. Cash flow from operations includes operating income before working capital changes of ₱35,420, net increase in working capital changes of ₱7,677.7 million and interest receipts of ₱211 million which was offset by interest payments of ₱6,336 million.

#### ***Net cash used in investing activities***

In the six months ended June 30, 2021, net cash flows used in investing activities were ₱9,478.3 million (U.S.\$195 million). The cash outflow primarily consisted of investment in capital expenditures of ₱9,181.1 million and addition to property and equipment of ₱297.2 million.

In 2020, net cash flows used in investing activities were ₱41,610.5 million (U.S.\$857 million). The cash outflow primarily consisted of investment in capital expenditures of ₱41,140 million and addition to property and equipment of ₱470 million.

In 2019, net cash flows used in investing activities were ₱39,363.1 million. The cash outflow primarily consisted of investment in capital expenditures of ₱38,426 million and addition to property and equipment of ₱938 million.

In 2018, net cash flows used in investing activities were ₱33,865.8 million. The cash outflow primarily consisted of investment in capital expenditures of ₱32,640 million and addition to property and equipment of ₱1,227 million.

In 2017, net cash flows used in investing activities were ₱21,440.2 million. The cash outflow primarily consisted of investment in capital expenditures of ₱22,212 million and addition to property and equipment of ₱618 million.

#### ***Net cash flow provided by (used in) financing activities***

Cash flows from financing activity were ₱1,062.0 million (U.S.\$2.1 million) in the six months ended June 30, 2021. This amount consisted primarily of loan repayments of ₱6,479 million, return to shareholders of ₱4,200 million and settlement of obligations under lease liabilities of ₱52 million partially offset by proceeds from loans of ₱12,000 million.

Cash flows from financing activity were (₱4,290.5) million (U.S.\$95 million) in 2020. This amount consisted primarily of loan repayments of ₱11,683 million, return to shareholders of ₱12,000 million and settlement of obligations under lease liabilities of ₱117 million partially offset by proceeds from loans of ₱19,200 million.

Cash flows from financing activity were ₱8,515.3 million in 2019. This amount consisted primarily of proceeds from loans of ₱34,300 million, partially offset by repayment of loans of ₱9,409 million, return to shareholders of ₱16,251 million and settlement of obligations under lease liabilities of ₱124 million.

Cash flows from financing activity were (₱6,673.1) million in 2018. This amount consisted primarily of loan repayments of ₱ 11,515 million and return to shareholders of ₱19,263 million partially offset by proceeds from loans of ₱24,150 million.

Cash flows from financing activity were (₱8,907.9) million in 2017. This amount consisted primarily of loan repayments of ₱ 12,825 million and return to shareholders of ₱19,083 million partially offset by proceeds from loans of ₱23,000 million.

#### **Capital Expenditures**

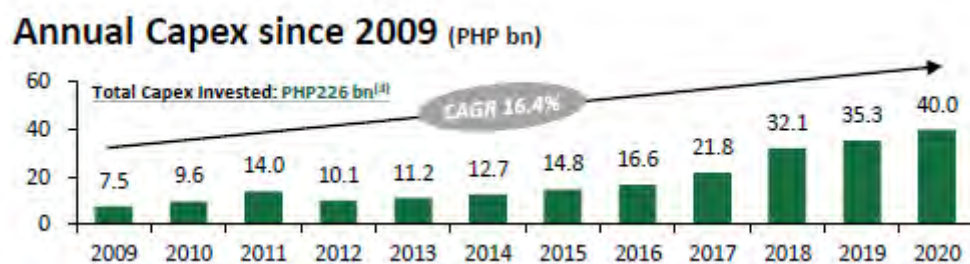
The Group makes substantial capital expenditures annually to support its business goals and objectives. Historically, majority of capital expenditure comprises construction contracts relating to interconnection, transmission line and substation projects, including the Mindanao-Visayas Interconnection Project.

The Group is committed to continuously investing in the nationwide transmission network to drive future growth. As of 2011, NGCP's regulatory asset base was ₱178 billion. From 2011 to 2020, NGCP's capital expenditure investments amounted to approximately ₱209 billion. For the 13-year period between 2021 and 2033, the Group has committed to invest approximately ₱440 billion in capital expenditures across 211 projects, of which ₱160 billion will be invested during 2021 to 2025. Although these are the Group's current plans with respect to capital expenditures, such plans may change as a result of a change in circumstances and the actual amount of expenditures may vary from the planned amount of expenditures for a variety of reasons, including changes in load growth, generation development, market conditions, competition and other factors. As the Group continues to expand, it may incur additional capital expenditures. The Group expects that NGCP's robust project pipeline and the Mindanao-Visayas Interconnection Project, which is a landmark project, to continue to expand its regulatory asset base.

The table below sets out the capital expenditures of NGCP in 2018, 2019 and 2020.

	For the year ended December 31,			
	2018	2019	2020	
	(in millions)			
	₱		U.S.\$	
Transmission.....	13,076.9	8,584.7	12,713.2	261.9
Substation .....	9,964.9	11,651.9	13,578.7	279.7
MVIP .....	4,525.5	7,792.0	8,467.1	174.4
System Operations .....	1,597.2	1,678.2	1,763.2	36.3
Metering.....	86.9	342.3	88.2	1.8
Spares.....	427.2	2,108.9	775.3	16.0
Support Services .....	2,421.3	3,110.2	2,605.2	53.7
<b>Total .....</b>	<b>32,099.8</b>	<b>35,268.0</b>	<b>39,990.8</b>	<b>823.8</b>

The Group has historically sourced funding for capital expenditures through long-term debt, while working capital requirements are sufficiently funded through cash collections and capital infusion by stockholders. The chart below sets out annual CAPEX investment for the period 2009 to 2020, for an aggregate amount of ₱226 billion.



For 2021, NGCP has budgeted ₱38,955 million (US\$802.5 million) as capital expenditures of which ₱9,269 million has been spent as of June 30, 2021. These primarily relate to projects such as the Cebu-Negros-Panay 230KV Backbone Project-Stage3 (CNP3) and the Mindanao-Visayas Interconnection Project (MVIP) which is one of the NGCP's biggest projects, the vital link to unify the Philippine Grid. Other vital link projects are Pagbilao EHV Substation Project, and the Hermosa-San Jose 500KV TL Project in Luzon and Substation Upgrading Project in Mindanao.

#### Indebtedness

The Group had outstanding loan payables of ₱135,685.3 million (U.S.\$2,795 million) and ₱141,205.7 million (U.S.\$ 2,909 million) as of December 31, 2020, and for the six months ended June 30, 2021, respectively.

As of June 30, 2021, the loans obtained by the Group are unsecured refinancing facilities consisting of (i) Philippine Peso Corporate Note Facility of ₱29.5 billion, (ii) fixed rate Philippine Peso corporate notes, and (iii) Peso denominated term loans.

See note 14 of the 2020 audited financial statements and note 14 of the 2021 interim financial statements for further information on loans payable.

## Contractual Obligations and Commitments

The following table summarizes the Group's contractual obligations and commitments as of June 30, 2021:

	<u>Total</u>	<u>2021</u>	<u>2022 to 2026</u>	<u>Over 5 Years</u>
		(in ₱ millions)		
Concession Fee Payable	54,319.1	-	24,087	30,232.1
Loans Payable - Current Portion <sup>(1)</sup>	14,915	7,390	7,525	-
Loans Payable - Non-current	127,085	-	82,905	44,180
Trade and other payables <sup>(2)</sup>	89,428	43,873	38,129	7,426
<b>Total</b>	<b>285,747</b>	<b>51,263</b>	<b>152,647</b>	<b>81,837</b>

Notes: (1) Includes current portion of loans payables to be settled within 360 days.

(2) Includes interest payables of existing loans which are yet to be accrued.

## Off-Balance Sheet Arrangements and Contingent Obligations

As of June 30, 2021, there were no off-balance sheet arrangements or obligations that were likely to have a current or future effect on the Group's financial condition, revenues or expenses, results of operations, liquidity, capital expenditures or capital resources that is material to investors.

In addition, the Group, in the ordinary course of business, is a party to certain cases or claims under protest pending with administrative bodies or the courts, the outcome of which are not presently determinable. See note 25 of the 2020 audited financial statements and of the 2021 interim financial statements for further information on the Group's contingent obligations.

## KEY PERFORMANCE INDICATORS

Set out below are certain performance indicators that the Group utilizes in period-to-period analysis and comparison of financial data.

	<u>As of and for the years ended December 31,</u>			<u>As of and for the six months ended June 30,</u>	
	<u>2018</u>	<u>2019</u>	<u>2020</u>	<u>2020</u>	<u>2021</u>
Net Income (₱ millions)	20,945.0	20,020.2	23,435.8	11,381.0	12,499.1
<b>Attributable to:</b>					
Equity holders of the Parent Company	8,407.7	8,042.1	9,394.8	4,558.3	5,012.1
Non-controlling interests	12,537.2	11,978.1	14,041.0	6,822.7	7,487.0
Revenues – net	45,402.0	45,396.5	48,606.6	24,183.1	24,186.2
EBITDA <sup>(1)</sup>	35,991.6	36,122.2	39,070.3	19,347.4	20,266.4
EBITDA Margin <sup>(2)</sup>	79.3%	79.6%	80.4%	80.0%	83.8%
Return-on-Assets <sup>(3)</sup>	7.6%	6.5%	6.8%	6.6%	7.2%
Net Profit Margin <sup>(4)</sup>	46.1%	44.1%	48.2%	51.7%	47.1%
Total Debt <sup>(5)</sup>	103,278.1	128,168.8	135,685.3	131,931.5	141,205.8
Debt-to-EBITDA <sup>(6)</sup>	2.9x	3.5x	3.5x	3.4x	3.5x

Notes: (1) EBITDA is Net income + Finance Costs + Tax Expense + Depreciation and Amortization.

(2) Calculated as EBITDA / Net Revenue

(3) Calculated as Net Income / Total Assets. In calculating Return on Assets, Net Income for the six months ended June 30, 2020 and June 30, 2021 have been annualized by multiplying the Net Income for the six months ended June 30, 2020 and June 30, 2021 by two.

(4) Calculated as Net Income / Net Revenue

(5) Comprised of loans payable – net of current portion and current portion of loans payable

(6) Calculated as Debt / EBITDA. In calculating Debt / EBITDA, EBITDA for the six months ended June 30, 2020 and June 30, 2021 have been annualized by multiplying the EBITDA for the six months ended June 30, 2020 and June 30, 2021 by two.

## **QUANTITATIVE AND QUALITATIVE DISCLOSURE OF MARKET RISK**

The Group's activities expose it to market risk. These market risks principally involve the possibility of adverse consequences on the Group's results of operations due to factors that generally beyond the control of the Group.

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 (i) foreign currency exchange risk and (ii) interest rate risk.

See note 21 of the 2020 audited financial statements and note 24 of the 2021 interim financial statements for details on foreign currency exchange risk and interest rate risk and a discussion on financial risk management.

### **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, 2020, 2019 and 2018 pertains to its cash in banks, power receivables, prepaid expenses and other current assets, trade and other liabilities denominated in US dollar, Euro, SGD, NZD, CAD and JPY. For the period ended June 30, 2021 and 2021, foreign currency exchange risk 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.

See note 21 of the 2020 audited financial statements and the 2021 interim financial statements for details on foreign currency exchange risk for a sensitivity analysis demonstrating the sensitivity to a reasonably possible change in exchange rates, with all other variables held constant, on the Group's net income and equity.

### **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.

In managing interest rate risk, the Group aims to reduce the impact of short-term fluctuations on the earnings. Over the longer term, however, permanent changes in interest rates would have an impact on profit or loss.

## INDUSTRY OVERVIEW

*The information that appears in this Industry Overview section, including all data (actual, estimates and forecasts) has been prepared by The Lantau Group (HK) Limited ("Lantau") and reflects estimates of market conditions based on publicly available sources and trade opinion surveys, and is prepared primarily as a market research tool. References to Lantau should not be considered as the opinion of Lantau as to the value of any security or the advisability of investing in the Issuer.*

*The information prepared by Lantau and set out in this Industry Overview has not been independently verified by the Issuer, the Group, the Selling Shareholders, the Joint Financial Advisors, the Joint Global Coordinators and Joint Bookrunners and the Joint Domestic Lead Underwriters and Joint Bookrunners and none of them gives any representations as to its accuracy and the information should not be relied upon in making, or refraining from making, any investment decision.*

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*This Industry Overview is a short-form version of the full Industry Report prepared by Lantau, which can be found in Appendix 3 of this Prospectus.*

11 August 2021

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## DISCLAIMER

*This document is a short-form version of the Industry Report – the full Industry Report can be found in Appendix 3 of this Prospectus.*

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**ACRONYMS**

AAGR	Average Annual Growth Rate
ADB	Asian Development Bank
AGMO	Autonomous Group Market Operator
AS	Ancillary Services
ASAI	Ancillary Services Availability Indicator
ASEAN	Association of South Eastern Asian Nations
ASPA	Ancillary Services Procurement Agreement
ASPP	Ancillary Services Procurement Plan
BBB	Build Build Build
BESS	Battery Energy Storage Systems
CKT-KMS	Circuit Kilometres
CRB	Central Registration Body
CREZ	Competitive Renewable Energy Zones
DoE	Philippine Department of Energy
DU	Distribution Utility
EC	Electric Cooperatives
ECA	Electricity Conversion Agreements
EPIRA	Electric Power Industry Reform Act
ERC	Electricity Regulatory Commission
FIT	Feed-in-Tariff
FLC	Frequency Limit Compliance
FOT	Frequency of Tripping
GDP	Gross Domestic Product
GMC	Grid Management Committee

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GRAM	Generation Rate Adjustment Mechanism
GW	Gigawatt
GWH	Giga-watt Hour
Hz	Hertz
HVDC	High-Voltage Direct Current
IEMOP	Independent Market Operator of the Wholesale Electricity Spot Market
IMF	International Monetary Fund
IMO	Independent Market Operator
IPP	Independent Power Producer
IPPA	Independent Power Producer Agreement
KV	Kilovolt
LNG	Liquefied Natural Gas
MVA	Megavolt Amperes
MVIP	Mindanao-Visayas Interconnection Project
MW	Mega-watt
MWH	Mega-watt hour
NEA	National Electrification Administration
NPC	National Power Corporation
NGCP	National Grid Corporation of the Philippines
OATS	Open Access Transmission System
PBR	Performance Based Regulation
PDP	Philippine Development Plan
PEMC	Philippine Electricity Market Corporation
PEP	Philippine Energy Plan

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PHP	Philippine Pesos
PIOU	Private Investor Owned Utilities
PPA	Power Procurement Agreement
PSA	Power Supply Agreements
PSALM	Power Sector Assets & Liabilities Management Corporation
RA	Republic Act
RCOA	Retail Competition and Open Access
RE	Renewable Energy
REC	Renewable Energy Certificate
REM	Renewable Energy Market
RES	Renewable Energy Sources
RPS	Renewable Portfolio Shares
SA	System Availability
SIIG	Small Island and Isolated Grid
SISI	System Interruption Severity Index
TDP	Transmission Development Plan
TFEC	Total Final Energy Consumption
TPES	Total Primary Energy Supply
TRANSMISYON	Transmission Resiliency Augmentation for Nationwide Smart Grid Management through Interconnected Systems, Organizations and Networks
TW	Terawatt
TWH	Terawatt Hour
USD	United States Dollar
VLC	Voltage Limit Compliance
WESM	Wholesale Electricity Spot Market

## 1. INTRODUCTION

### 1.1. POWER SECTOR OVERVIEW

The Philippines ranks as the seventh most populous country in Asia and the second amongst countries in the Association of Southeast Asian Nations (ASEAN).<sup>1</sup> With an estimated population of 108.7 million in 2020, it is projected to grow to 115.4 million by 2025, and 142.0 million by 2045<sup>2</sup>. Between 2020 and 2045, the Philippine population is projected to have an implied Compounded Annual Growth Rate (CAGR) of 1.12%.

In 2020, the Philippines consumed 101.8 terawatt hours (TWh) of electricity. A slight decrease from the 2019 system high of 106.0 TWh, system peak demand in 2020 stood at 15.28 gigawatts (GW).<sup>3</sup> This was met by 26.25 GW of installed capacity, rated at 23.41 GW of dependable capacity, where dependable capacity is defined as actual reliable capacity, in contrast with a plant's nameplate capacity.<sup>4</sup> In 2020, the Philippines electricity market provided USD24.6 billion of gross value added to the Philippines economy at 2020 prices.<sup>5</sup> Gross value added for electricity increased by 6.4% from 2018 to 2019, but fell to -1.3% over the period from 2019 to 2020 due to the Covid-induced economic recession.<sup>6</sup> As outlined in a recent (2021) consultation draft of the Transmission Development Plan (TDP), the National Grid Corporation of the Philippines (NGCP) expects electricity demand to grow at an AAGR of 6.23% between 2021 to 2025, 6.73% for 2026 to 2030, and 6.49% for 2031 to 2040.<sup>7</sup>

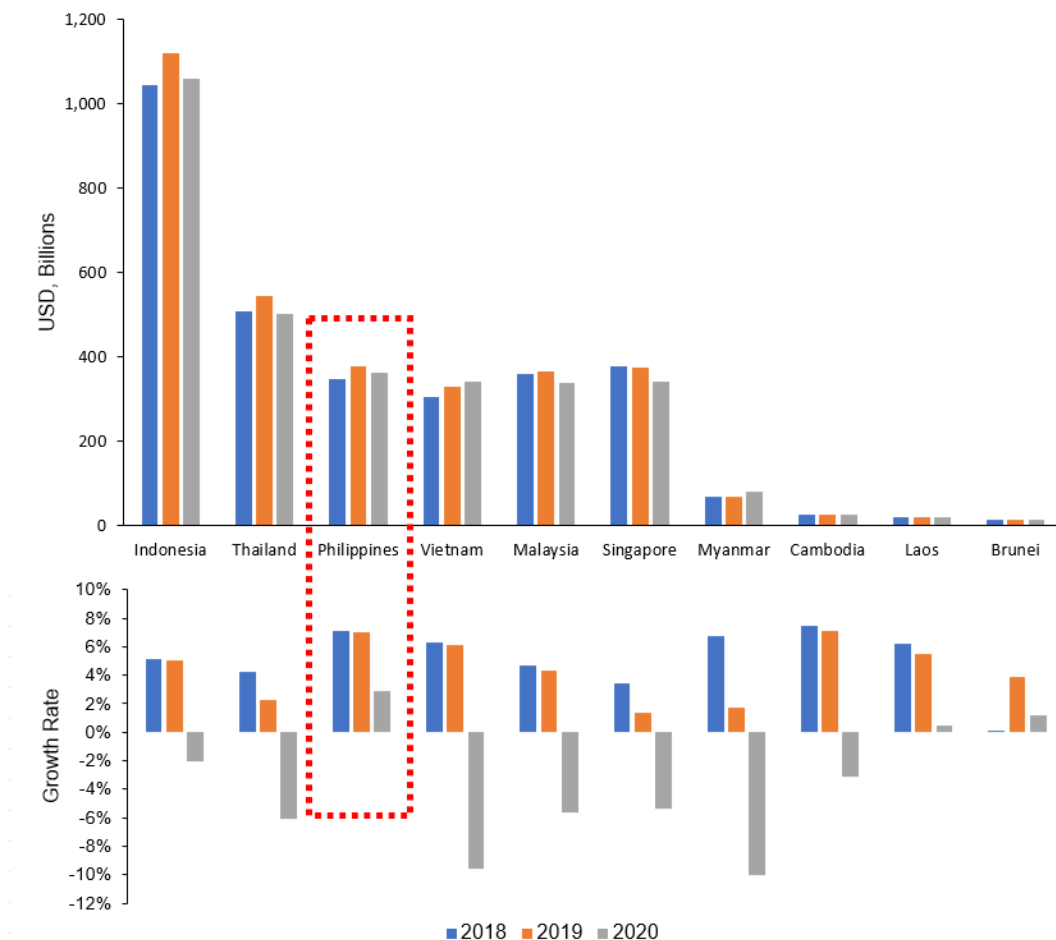
According to the Philippine Statistics Authority's estimations of population based on the 2015 census, the most recent available pending the release of the 2020 update, just over 57% of the population reside in the main economic region of Luzon.<sup>8</sup> About 19% live in the Visayas region, with nearly 24% living in Mindanao.<sup>9</sup> These three regions are the only parts of the Philippines featuring a transmission grid (a transmission interconnection links Luzon and Visayas). However, an interconnection between Visayas and Mindanao is under construction with completion expected in 2022. Collectively, around 2% of the population living in these three regions do not have access to grid electricity.

The remaining Philippine population is scattered, spread across thousands of other smaller, relatively isolated islands separated by a lack of grid-connection. Instead, they are served by diesel generators or solar systems – if at all.<sup>10</sup> Many of these remote areas are impoverished and the Department of Energy (DoE) aims to increase electrification and lower power costs with decentralised mini-grids and solar home systems.<sup>11</sup>

Energy consumption and economic development in the Philippines are highly interdependent. The country's economy had a real Gross Domestic Product (GDP) of USD362 billion in 2020.<sup>12</sup> The three grid connected areas accounted for almost 100% of 2020 GDP with 69.2% of real GDP was in Luzon, 17.2% in Mindanao, and 13.6% in Visayas.<sup>13</sup> Comparatively, the Philippines' real GDP is the fourth largest in ASEAN. On a per capita basis, 2020 GDP in the Philippines is USD 2,980 which ranks as the sixth highest out of the ASEAN nations.<sup>14</sup>

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**Figure 1: Real GDP and Growth Rates, 2018 to 2020**

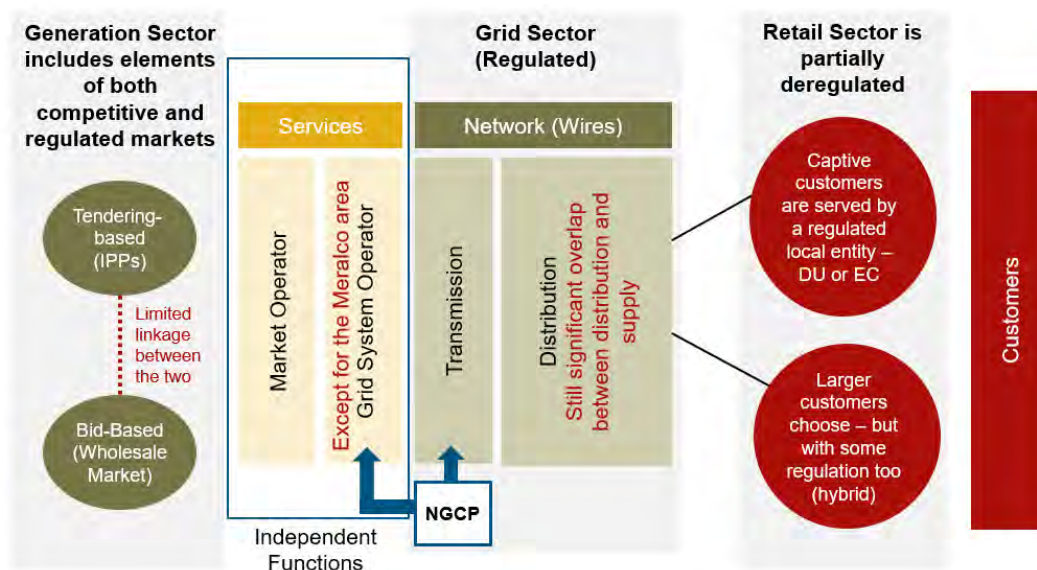


Source: International Monetary Foundation. (2021). *World Economic Outlook Database, April 2021*.

In terms of market structure, the Philippine power sector has seen substantial restructuring following the promulgation of the Electric Power Industry Reform Act (EPIRA) in 2001. A competitive wholesale electricity spot market (WESM) has been operating since 2006. Retail competition and open access (RCOA) started in 2013 for the largest customers and was extended in February 2021 to customers larger than 500 kW. Other electricity industry functions, primarily transmission and distribution, are regulated. Figure 2 provides a high-level summary.

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**Figure 2: Regulation Across the Electricity Sector**



Source: The Lantau Group. (2021).

Note: NGCP operates the transmission grid nationally, apart from within the greater Metro Manilla area, where the transmission grid is operated by Meralco.

Transmission operations are managed by NGCP. The distribution and supply side of the market features a mix of private investor-owned Distribution utilities (DUs) and Electric Cooperatives (ECs) that operate within geographic franchise areas. DUs and ECs act as retailers for all customers who are not contestable under RCOA as well as any contestable customer who does not elect to switch to competitive retail supply. The DUs and ECs fulfil their supply requirements via power purchases from long-term bilateral contracts – known as Power Supply Agreements (PSAs) – as well as purchases from the spot market. The associated energy costs are passed through to consumers directly via regulated tariffs. PSAs account for the majority of energy sales in the market and are subject to regulatory approval. DUs earn a regulated return on their grid assets, while ECs are member-owned entities that operate on a not-for-profit basis.

**Figure 3: Business Operations Comparison of Several Key Markets**

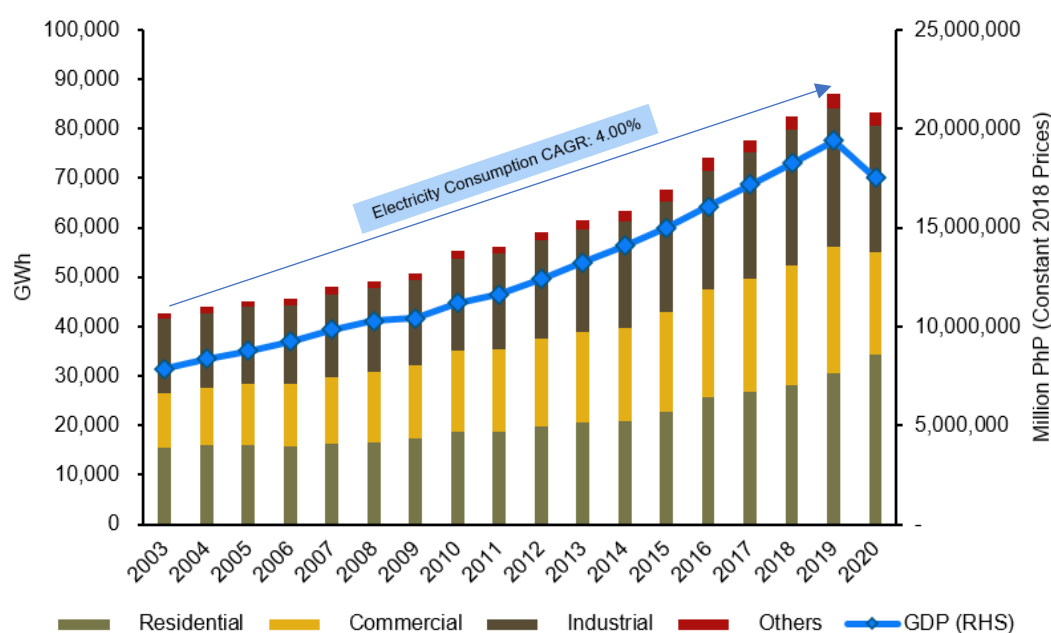
	Philippines	Malaysia	Thailand	Indonesia	Vietnam	Australia	United Kingdom	
<b>Description</b>								
Key Player								
Ownership	Private	Private	Private	State-owned	State-owned	State-owned	Private	Private
Listed	✗	✓	✓	✗	✗	✗	✗	✓
<b>Business Model</b>								
Generation	✗	✓	✓	✓	✓	✓	✗	✗
Distribution	✗	✓	✓	✗	✓	✓	✗	✗
Transmission	✓	✗	✓	✓	✓	✓	✓	✓
System operator	✓	✗	✓	✓	✓	✓	✗	✓

### 1.1.1. Demand and Supply Fundamentals

Historically, Philippine economic growth and electricity consumption growth have been correlated.

From 2000 to 2020, the CAGR of total electricity consumption was 3.6%, while the economy grew at an CAGR of 5.0%.<sup>15</sup> For the whole of the Philippines, the elasticity of electricity consumption with respect to real GDP was 0.94 over the period 2016 to 2020, meaning that a 1% increase in GDP has corresponded to a 0.94% increase in electricity consumption. Growth in electricity consumption has been well-balanced across the commercial, industrial, and residential sectors (as shown in Figure 4).

**Figure 4: National Growth in Real GDP and Electricity Consumption**

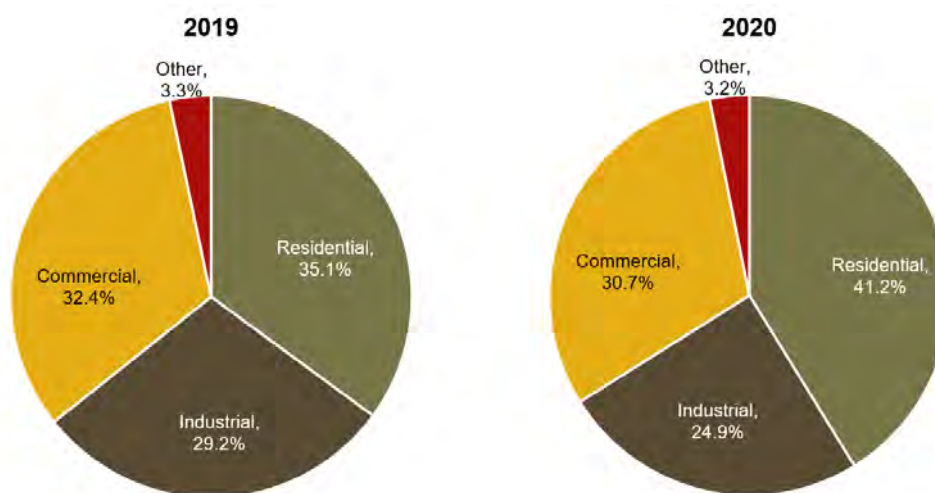


Source: Department of Energy. (2021). 2003-2020 Electricity Sales and Consumption per Grid, by Sector; and Philippine Statistics Authority. (2021). Annual National Accounts Linked Series (2000-2020) at Current and Constant 2018 Prices.

In 2020, electricity sales comprised 41.2% residential consumption, 30.7% industrial, 24.9% commercial and 3.2% from other sectors (Figure 5).<sup>16</sup> This is comparable to other ASEAN countries, though it is noteworthy that the Philippines has a more balanced mix of energy drivers with less reliance on energy intensive heavy industry.<sup>17</sup> This dynamic reflects the significant role the services sector plays in driving economic growth

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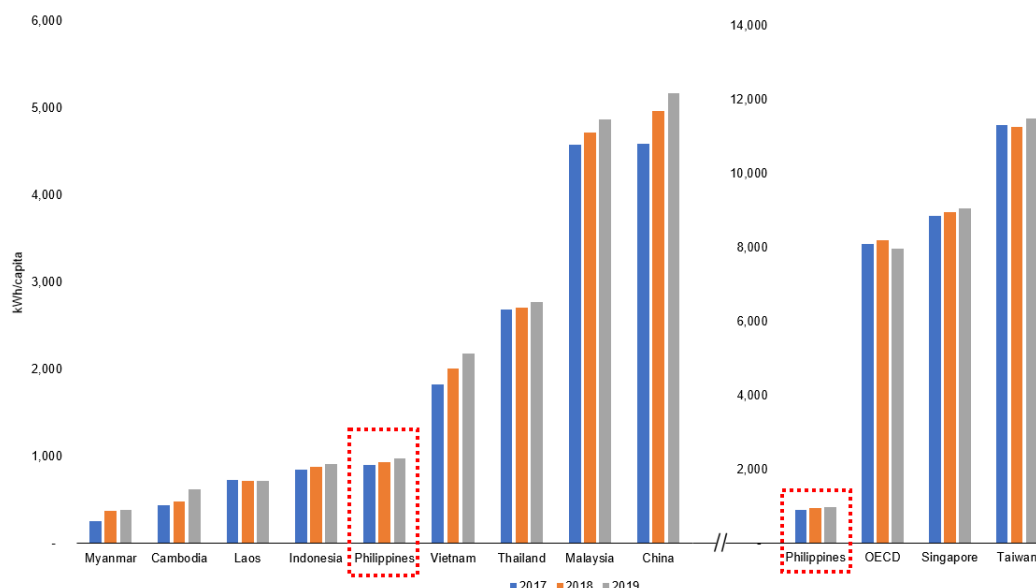
**Figure 5: Sectoral Breakdown of Philippine National Electricity Sales (2019 and 2020)**



Source: Department of Energy. (2021). Philippine Power Statistic: 2003-2020 Electricity Sales and Consumption per Grid, by Sector.

In 2019, Philippine annual electricity usage per capita stood at 981 kilowatt hours (kWh) with nationwide total electricity consumption of 87.1 TWh.<sup>18</sup> As can be seen in Figure 6, this is relatively low in comparison with other major ASEAN countries and the Organization for Economic Co-operation and Development (OECD) member average. Pre-Covid growth projections made by the Philippine DOE for 2025 forecast total annual consumption to reach 140.7 TWh, translating to annual electricity usage per capita of 1,220 kWh.<sup>19</sup>

**Figure 6: Electricity Consumption per Capita across Select Asian Countries and OECD**



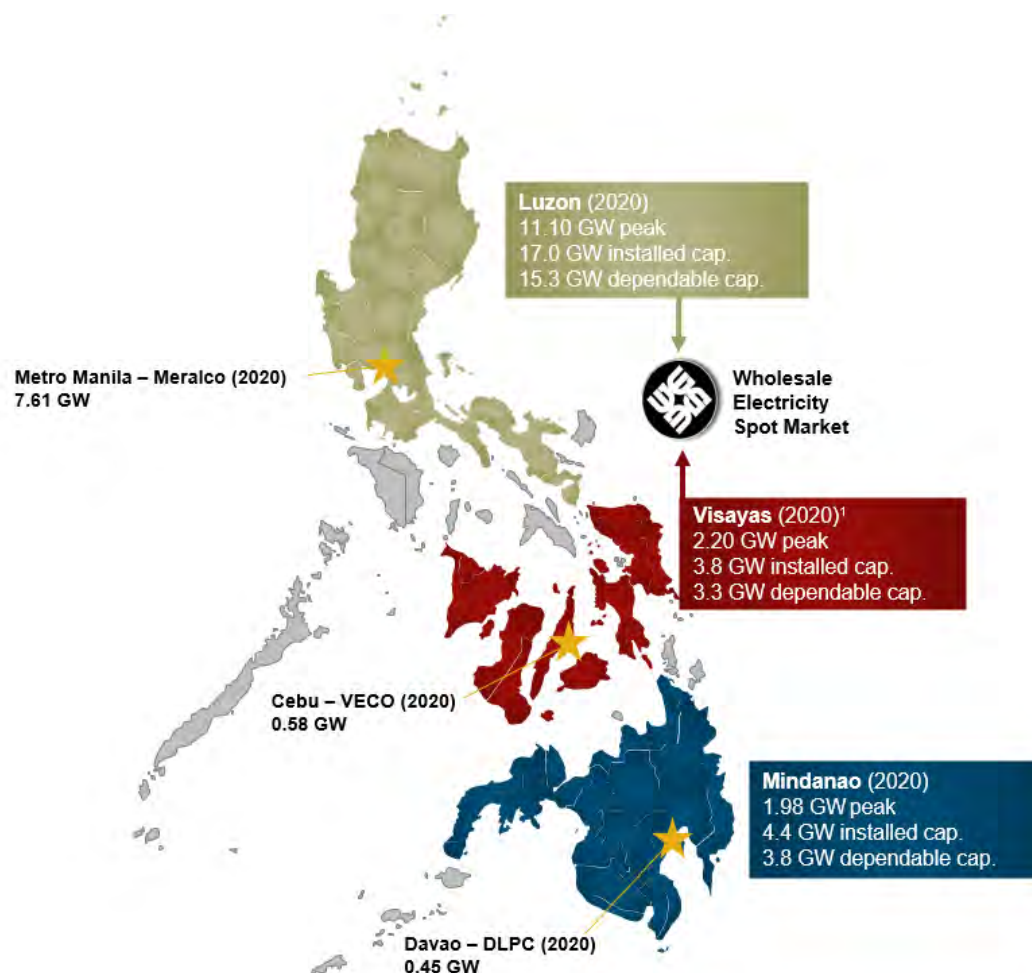
Source: International Energy Agency. (2020). Electricity Consumption per Capita, OECD Total 1990-2019, as modified by The Lantau Group; Department of Energy. (2020); World Bank. (2021). Electric Power Consumption (kWh per capita); Philippines Statistics Authority. (2021). Annual National Accounts Linked Series (2000-2020); and The Lantau Group. (2021).

Within the Philippines, the majority of electricity demand is centred in the main economic region of Luzon, which accounted for 73% of electricity consumed nationally in 2020, and with much of this concentrated in the Metro Manila region.<sup>20</sup> Figure 7 conveys recent demand and supply figures across the three grid connected regions of

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Luzon, Visayas and Mindanao. As can be seen, both installed and what is called ‘dependable’ generation capacity by the DOE exceeds peak demand. Whilst there is a reserve margin, there is still a continuing need for investment and development to keep pace with growth, cater for outages, and be prepared for inherent demand uncertainty due to weather variations such as periodic El Nino impacts.

**Figure 7: Electricity Demand from Regional Grids as of 2020**



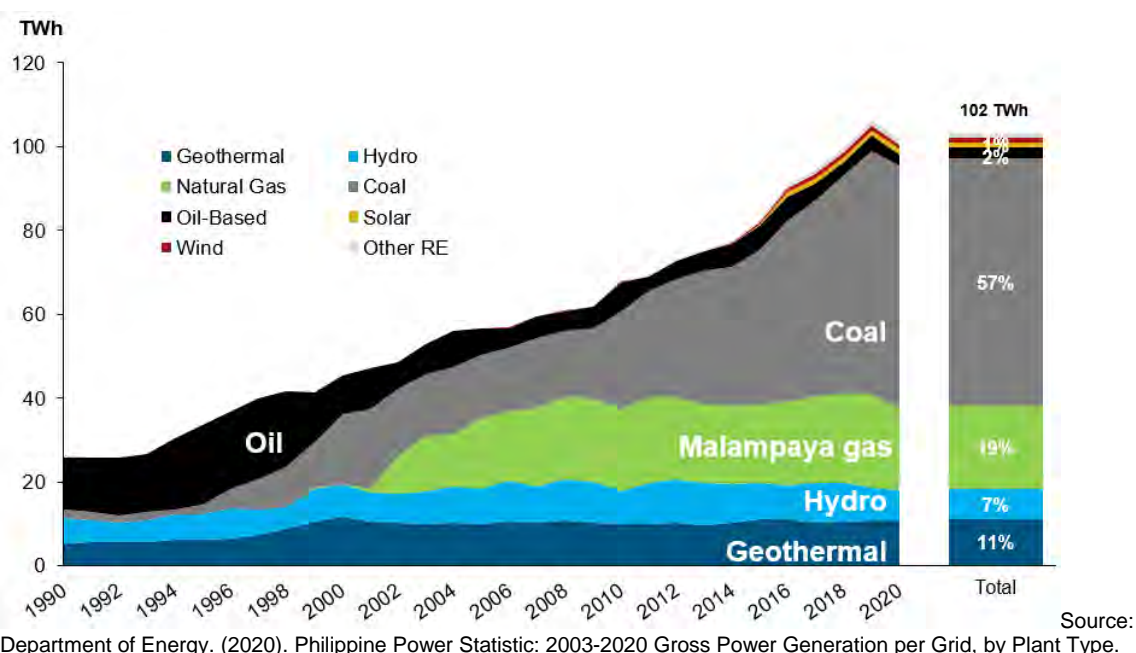
Source: Department of Energy. (2021). 2001-2020 System Peak Demand Per Grid.

Fuel sources for the Philippine power sector include reliance on indigenous natural resources, with domestic coal, natural gas, geothermal, and hydro resources all featuring prominently and driving distinct generation dynamics across each region. In addition, coal is imported, and the possibility of LNG imports has long been in prospect to help meet growth as well as offset depletion of domestic gas resources. Currently, fossil fuel generators constitute the bulk of electricity supply. In 2020, 57% of electricity generation in the Philippines was coal-fired, while natural gas and oil accounted for a further 19% and 2% of generation supply respectively.<sup>21</sup> The remaining 21% of supply is renewable, predominantly geothermal and hydro, which made up 11% and 7% of total electricity supply respectively in 2020.<sup>22</sup>

Figure 8 highlights the evolving generation mix from 1990 through to 2020. Notable developments are the diminishing role of oil-fired generation in the 1990s and early 2000s, the development of the Philippine’s Malampaya gas field in the early 2000s, and the substantial increase in coal-fired generation in the 2010s. As seen, increased electricity demand in the twenty-first century has largely been met by expanded thermal generation, although wind and solar have grown recently.

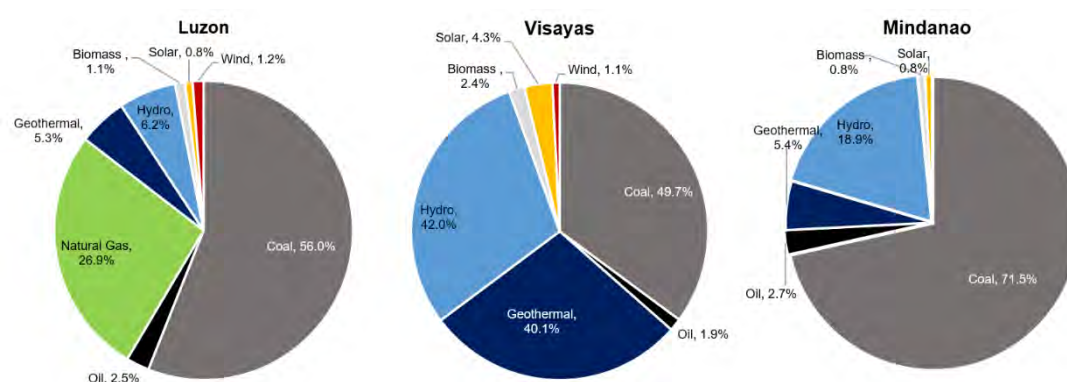
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**Figure 8: Generation of Electricity by Fuel Type (1990-2020)**



Coal forms the backbone of supply in each of the three major grid-connected regions, at 56% in Luzon, 50% in Visayas, and 72% in Mindanao. However, apart from coal, each region has a distinct fuel mix due to different availability profiles of indigenous natural resources.<sup>23</sup> The Malampaya gas field – the Philippines’s only source of domestic gas – is located offshore and connected via an undersea pipeline to an onshore processing plant in Luzon. Consequently, gas makes up around 27% of Luzon’s generation supply. Luzon is the only region to use Malampaya gas in electricity generation. Generation in Visayas consists of 40% geothermal energy, with geothermal resources concentrated in Leyte and Negros.<sup>24</sup> In Mindanao, 19% of electricity supply is hydropower.

**Figure 9: Regional Generation Mix**



Source: Department of Energy. (2021). Philippine Power Statistic: 2003-2020 Gross Power Generation per Grid, by Plant Type.

Alongside coal, natural gas plays a significant role in electricity supply, with the Malampaya field is the country’s sole source of indigenous gas in commercial quantities, yet its production is widely expected to see a decline in the coming years.<sup>25</sup> To meet energy supply projections outlined in the Philippine Energy Plan 2017-2040 (discussed further in Section 1.1.3) either new domestic gas fields will need to be developed, or liquefied natural gas (LNG) imported.<sup>26</sup> In 2017, the DoE issued the Philippine Downstream Natural Gas Regulation (PDNGR) to expedite LNG imports into the country.<sup>27</sup>

In recent years, the Philippine government also has sought to promote the development and commercialisation of renewable energy through a variety of policy measures. Among these, the Feed-in-Tariff (FIT) and Renewable

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Portfolio Standards (RPS) have been two particularly important measures.<sup>28</sup> Both the FIT and RPS were first set out under with the Renewable Energy Act of 2008 and continue to exist in the Philippine power sector.<sup>29</sup>

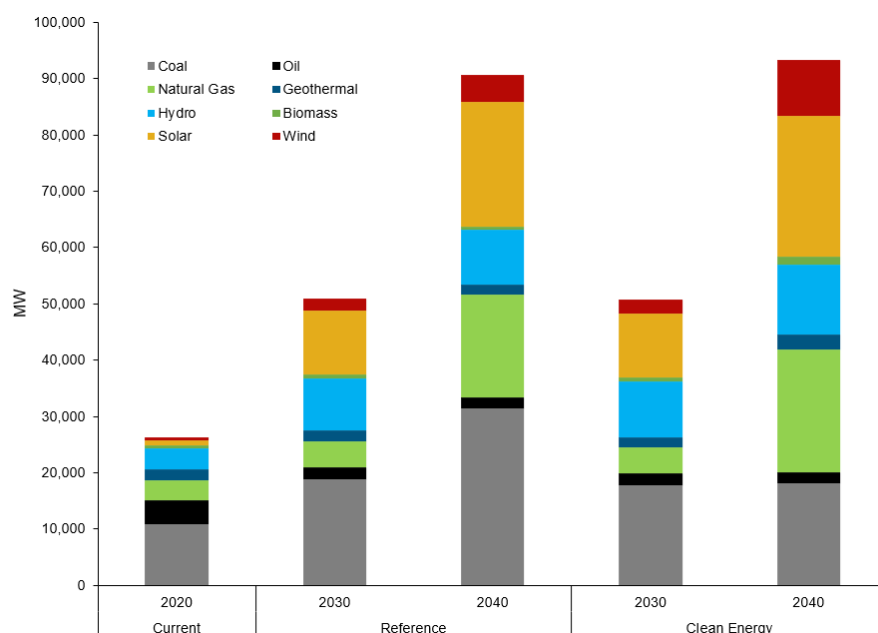
The first important measure, FIT for solar, wind, biomass, and small-scale hydro, was first implemented in 2012 with its first payments made in 2015. The FIT program provides a fixed price per kWh for renewable energy production wherein differentiated tariffs were set for each generation technology and vintage, subject to a predetermined quota. As of December 2020, all renewable capacity FIT quotas have been fully subscribed, apart from 103 MWs of quota for small-hydro capacity remaining. Resources that were installed under the FIT scheme will continue to receive FIT payments for 20 years from the initial project completion date. As of 2020, the FIT program had led to 1,323 MW of installed renewable capacity.<sup>30</sup> The FIT program is funded by a combination of WESM revenues and a universal charge known as the 'FIT-All,' which is approved annually by the ERC and paid by grid-connected end-users via their monthly bill. In the period 2015 through to 2020, installed solar capacity has increased from 165 MW to 1,019 MW. Installed wind capacity has stayed at more or less the same level however, with a slight increase from 427 MW to 443 MW over the same period.<sup>31</sup>

Introduced as the second major renewable instrument in 2018, RPS places requirements on suppliers, retails, and others, to procure a minimum amount of renewable energy from qualified sources each year from 2020 through until 2030. Under the RPS, all grid-connected distribution utilities are required to increase the share of renewable generation in their supply portfolio by 1% of total supply per year.<sup>32</sup>

Other policies have been put in place that indirectly drive renewable adoption. The 2018 Philippine Tax Reform for Acceleration and Inclusion (TRAIN) repealed tax benefits and imposed carbon excise taxes on oil and gas imports<sup>33</sup>. In 2020, the Energy Secretary simultaneously announced a moratorium on new coal-fired projects, while also permitting 100% foreign ownership of Philippine geothermal projects.<sup>34 35</sup>

The Department of Energy provides both business-as-usual reference outlook and a clean energy scenario for installed generation capacity projections in the Philippine Energy Plan 2018-2040.<sup>36</sup> These scenarios are set out in Figure 10:

**Figure 10: Projected Installed Capacity in Reference and Clean Energy Scenarios**



Source: Department of Energy. (2020). Philippine Power Statistic: 2003-2020 Installed and Dependable Capacity per Grid, by Plant Type; and Department of Energy. (2018). Philippine Energy Plan 2018-2040.

Published in 2018, the Philippine Energy Plan is the most recent official source of projected future generation capacity and mix, although much has changed since it was formulated. In particular, the Philippine Energy Plan had envisaged significant expansion of coal capacity, with coal generation capacity originally expected by the DoE to increase from 10,944 MW at the end of 2020 to approximately 18,900 MW in the reference scenario, and

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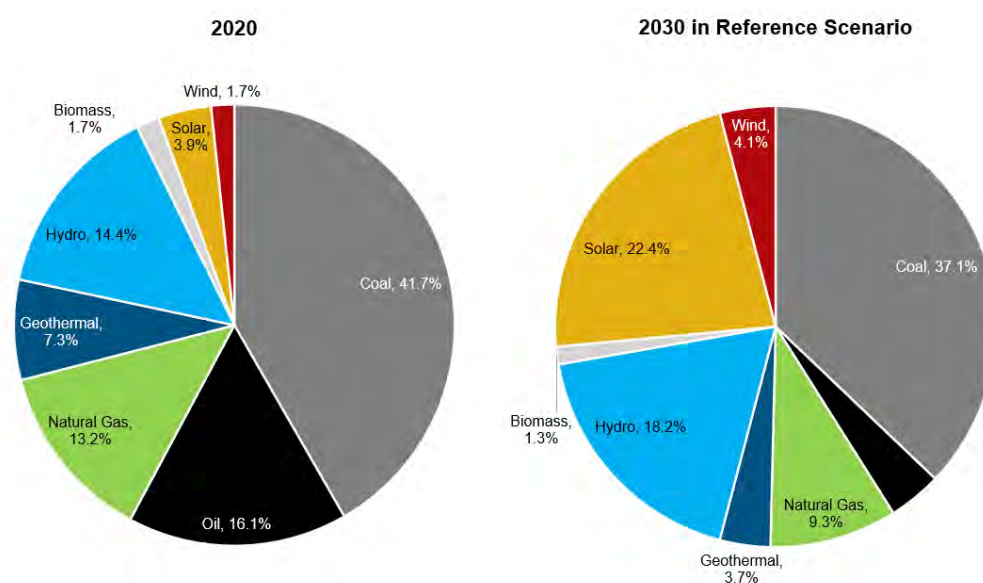
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17,850 MW in the clean energy scenario by 2030. Under the reference scenario, coal capacity will increase by another 66.5% to 31,470 MW in 2040, while staying at approximately the 2030 level in the clean energy scenario. The DoE's declaration of a coal moratorium suggests that the coal projections set out in the Philippine Energy Plan are unlikely to fully materialise. The declared moratorium is not absolute, but focuses on greenfield sites and excludes currently committed projects, pre-planned expansions of existing facilities and prospective projects that already have made significant progress in terms of securing local planning permissions.<sup>37</sup>

In terms of other resources, the Philippine Energy Plan projects:

- **Hydro:** The DoE forecasts hydrogeneration installed capacity to increase from 3,779 MW in 2020 to 9,247 MW in the reference scenario and 9,920 MW in the clean energy scenario in 2030. Between 2030 and 2040, hydro is expected to grow by 4.1% and 24.0% respectively in the reference and clean energy scenarios. Of the DoE's estimated 13,097 MW of untapped hydropower potential in the Philippines, 85% are large hydro (>10MW), while 15% are mini hydro (101kW-10MW) and micro hydro (1 to 100 kW). Although there are several large hydro plants with committed and indicative commercial operation dates (CODs), the DOE acknowledges that new large hydro projects are increasingly difficult to build, with high capital costs, long build times, negative environmental impacts and increasing issues around social licence and public acceptability. While the available capacity from potential run-of-river hydro projects is much smaller and avoids some of the challenges of large storage hydro, generation from nearly all hydro projects is highly seasonal and prone to reduced availability during the hotter dry season months of April, May, and June.<sup>38</sup>
- **Natural gas:** In 2020, there was 3,453 MW of installed natural gas capacity in the Philippines. In its reference scenario, the DoE forecasts natural gas fired generation capacity to increase to 4,760 MW in 2030 and 18,240 MW in 2040. The clean energy scenario has a similar trajectory until 2030, with 4,620 MW predicted in 2030, and 21,660 MW in 2040. With the likely depletion of the Malampaya gas fields by 2030, the DoE has shifted its natural gas roadmap to focus on developing LNG import infrastructure rather than indigenous resources.
- **Solar:** From its 2020 installed capacity of 1,019 MW, solar is expected by the DoE to reach 11,393 MW in 2030 for both the reference and clean energy scenario. Between 2030 and 2040, however, the reference scenario forecasts an additional 10,657 MW, while the clean energy scenario sees an additional 13,567 MW. Solar is expected to achieve approximately 24.3% to 26.7% of the total generation mix in 2040. The DoE believes that a significant portion of this growth will come from its 25 candidate renewable energy zones (CREZs). CREZs are selected based on their high concentration of high-quality wind and solar potential. By DoE estimations, these CREZs have a gross 58,110 MW of solar photovoltaic potential capacity.<sup>39</sup>
- **Wind:** In 2020, installed wind capacity stood at 443 MW. In the reference scenario, installed wind capacity is expected to reach 2,076 MW in 2030 and double to 4,772 MW in 2040. But in the clean energy scenario, wind capacity is expected to reach a similar 2,396 MW in 2030 and quadruple to 8,897 MW in 2040. The DoE estimates that their 25 CREZs have a gross 93,987 MW of wind potential capacity.<sup>40</sup>

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**Figure 11: Current and Official Government Reference Forecast (2030) for Installed Capacity by Fuel Type**Source: Department of Energy. (2018). *Philippine Energy Plan 2018-2040*.

### 1.1.2. Macroeconomic Environment

The Philippines had a real GDP of USD362 billion in 2020, which, due to the Covid-induced economic recession, reflects a contraction of -9.6% from 2019.<sup>41</sup> By comparison, the World Bank estimated that real GDP in ASEAN grew by 0.9% in 2020 (the lowest rate since 1967).<sup>42</sup> The World Bank postulates that the relatively large negative impact on GDP observed in the Philippines was due to a combination of strict lockdowns muting domestic demand, along with a disproportionate reliance on outsourcing, international supply chains, and the service sector.<sup>43</sup>

The Philippine services sector, which represented 60.7% of overall Philippine GDP in 2020,<sup>44</sup> contracted by -9.2% contraction in 2020, led by reductions in accommodation and food service growth (-45.4%), transport and storage (-30.9%), real estate (-17.0%), and wholesale and retail trade (-9.2%).<sup>45</sup> Philippine industrial sectors represented 29.2% of GDP, with manufacturing being the largest industrial sector and contributing to 18.6% of GDP.<sup>46</sup> Industry as a whole contracted by -13.2% in 2020.<sup>47</sup> Industry was weighed down by contractions in mining and quarrying (-18.9%), manufacturing (-9.8%) and construction (-25.7%). Agriculture, forestry, and fishing represented 10.2% of GDP in 2020 and contracted by -0.2% in 2020.<sup>48</sup>

The Asian Development Bank (ADB) citing the continuation of muted consumer activity, business activity, and consumer confidence due to the ongoing pandemic as the basis for downward revisions to GDP in 2021.<sup>49</sup> Looking at growth in 2022 and beyond, the median 2022 real GDP forecast (made by an assortment of banks and rating agencies on Bloomberg in July 2021) is 6.6%.<sup>50</sup> This is slightly higher while remaining in line with growth projections as made by several international development banks alongside the Philippine government, as set out in Table 1.

**Table 1: GDP Growth Forecasts**

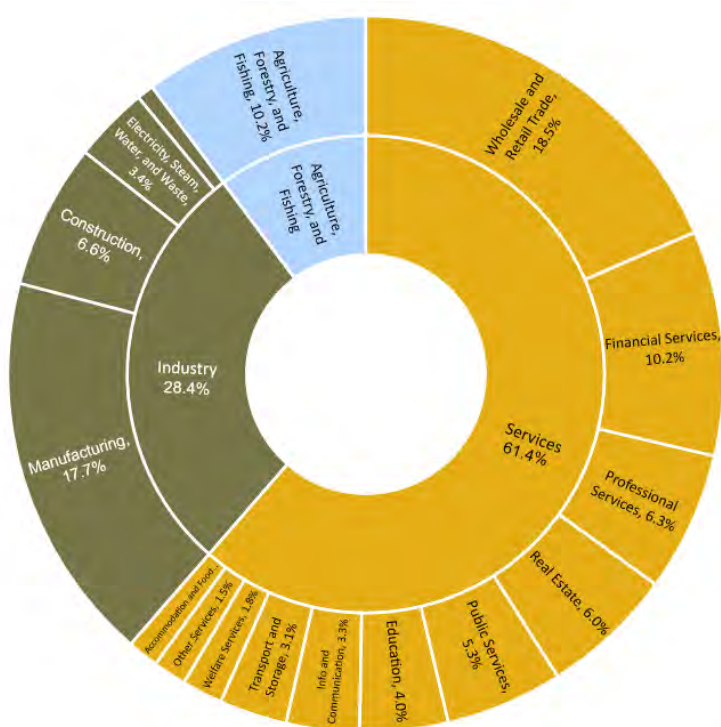
GDP Growth Projections	2021	2022	2023
Government Projection	6.5%-7.5%	6.5%-7.5%	n/a
ADB (Apr 2021)	4.5%	5.5%	n/a
IMF (Apr 2021)	6.9%	n/a	n/a

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World Bank (Mar 2021)	5.5%	6.3%	6.2%
Fitch Ratings (July 2021)	5.0%	6.6%	n/a
Moody's (July 2021)	5.3%	6.5%	8.3%

Source: National Economic and Development Authority. (2021). *Sulong Philippines: pre-SONA of the Economic Development and Infrastructure Clusters Forum*; Asian Development Bank (2021). *GDP Growth Rate: Philippines*; International Monetary Foundation. (2021). *Countries: Philippines, Country Data*; and The World Bank (2021). *World Bank DataBank: Philippines*.

**Figure 12: Real GDP by Sector and Sub-Sector (2020)**

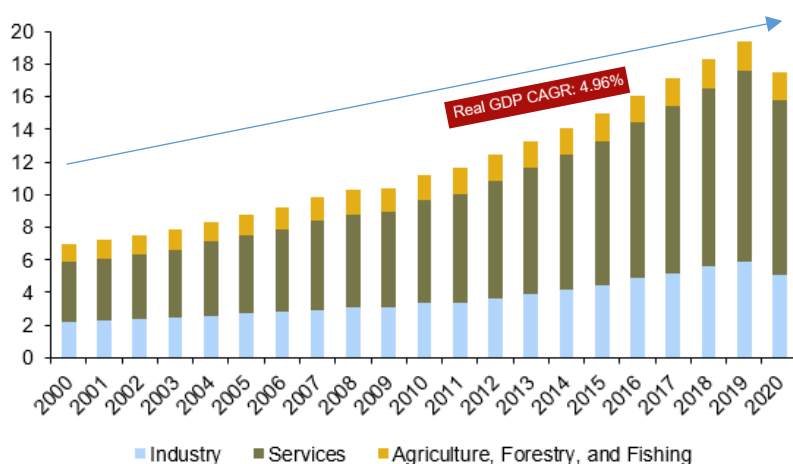


Source: Philippine Statistics Authority. (2021). *Annual National Accounts Series (2000-2020)*.

Prior to the outbreak of Covid-19, the Philippine economy had experienced sustained and robust growth; between 2009 and 2019, real GDP grew at an CAGR of 7.1%,<sup>51</sup> whilst 2019 growth registered 6.1%.<sup>52</sup> According to the World Bank, Philippine economic growth before the pandemic was driven by strong consumer demand, a vibrant labour market, notable service sector performance, and robust remittances.<sup>53</sup>

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**Figure 13: Real GDP by Sector in Philippines 2000-2020 (Philippine Pesos Trillion)**



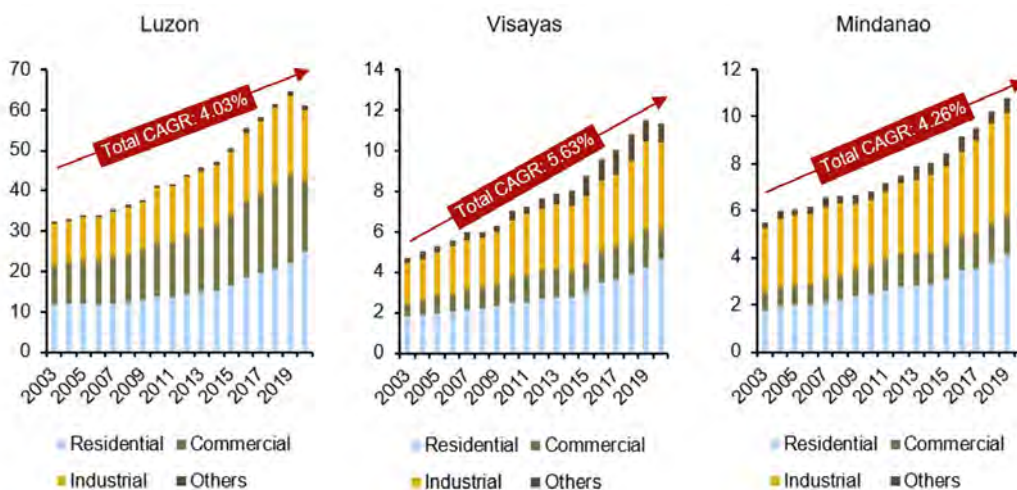
Source: Philippine Statistics Authority. (2021). Annual National Accounts Linked Series (2000-2020) at Current and Constant 2018 Prices as of April 8, 2021.

In 2020, Luzon represented 69.2% of real GDP, while Visayas represented 13.6%, and Mindanao 17.2%.<sup>54</sup> For each of the three regions, the services sector constitutes between 50% to 65% of GDP, with Luzon having the highest proportion (62.7%) and Mindanao the lowest (52.2%). Luzon has a larger presence of financial and professional services, while Visayas and Mindanao have a higher proportion of trade, education, and transportation. Industry constitutes 30.5% of Luzon’s regional GDP, while for both Visayas and Mindanao industry only constitutes approximately 26%. Manufacturing plays a larger role in Luzon (20.8%) than it does in Visayas (14.5%) or Mindanao (13.1%). Agriculture, forestry, and fishing make up a larger proportion of Mindanao’s regional GDP (21.6%) than in Visayas (13.0%) and Luzon (6.7%).

### 1.1.3. Electricity Consumption and Projections

Total final electricity consumption (TFEC) in the Philippines reached a high of 562.2 TWh in 2019, a 3.48% increase over 2018.<sup>55</sup> The CAGR for TFEC between from 2003 to 2019 was 4.2%.<sup>56</sup> Consumption in Visayas and Mindanao grew at 5.6% and 4.3% respectively over the same period, while growth in Luzon was slower at 4.0%.<sup>57</sup> While national growth has been spread across the commercial, industrial, and residential sectors, Visayas has experienced relatively more rapid industrial growth and Mindanao has seen relatively more commercial growth.

**Figure 14: Consumption by Region & Segment (TWh)**



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Source: Department of Energy. (2020). 2003-2020 Electricity Sales and Consumption per Grid, by Sector.

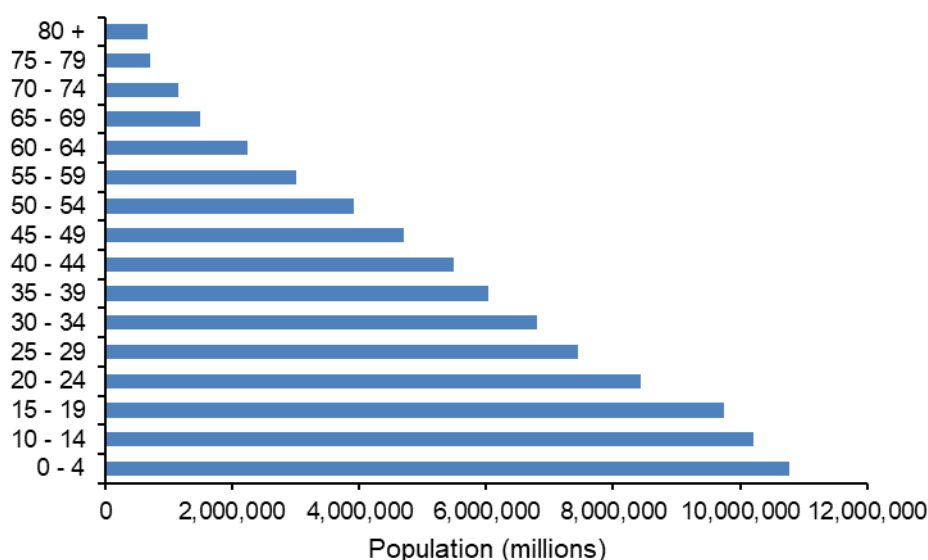
A variety of factors provide a supportive backdrop for continued electricity demand growth in the Philippines:

- Strong linkages between the economy and electricity consumption:** The strong relationship between GDP and electricity demand is demonstrated by how their elasticities were 0.98 in 2015-2019 prior to Covid-19.<sup>58</sup> The smaller and less economically developed regions, Visayas and Mindanao, have tended to be more elastic at 1.1 and 1.2 respectively, meaning that electricity growth is more sensitive to changes in GDP.
- Population growth and demographics:** Governmental estimates posit that the Philippines population is growing by approximately 1.5 million people each year.<sup>59</sup> Population growth drives significant need for infrastructure<sup>60</sup> and the comparatively youthful skew of Philippine demographics supports a rapidly growing workforce (Figure 15).
- Climatic conditions:** The hot and humid climate of the Philippines points to the growing need for space cooling. In Metro Manila, an observable relationship exists between increasing temperatures and increased electricity demand.<sup>61</sup>
- Continued electrification:** As of 2019, whereas the Luzon region had achieved an electrification rate of 98% of the population in Luzon, the electrification rates in the Visayas and in Mindanao, respectively, are 94% and 80%.<sup>62</sup> In particular, more electrification is needed in remote areas such as the Bangsamoro Autonomous Region in Muslim Mindanao and Zamboanga Peninsula.

As outlined in a recent (2021) consultation draft of the Transmission Development Plan (TDP), NGCP expects electricity demand to grow at an AAGR of 6.23% between 2021 to 2025, 6.73% for 2026 to 2030, and 6.49% for 2031 to 2040.<sup>63</sup>

NGCP projects peak demand to almost double (from a peak national demand of 15,282 MW in 2020, to reach 28,631 MW) by 2030 and almost quadruple by 2040 (reaching 53,569 MW).<sup>64</sup> Mindanao’s electricity demand is projected to have the highest Annual Average Growth Rate (AAGR) between 2021 and 2040 at 7.7%.<sup>65</sup>

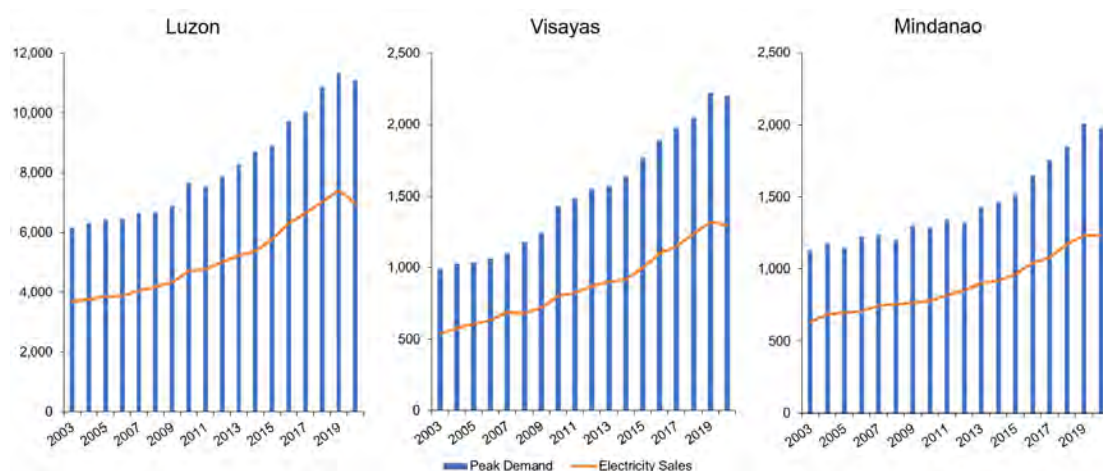
**Figure 15: Population by Age Group (2010 Census)**



Source: Philippine Statistics Authority. (2010). Table 1. Projected Population, by Age Group, Sex, and by Five-Calendar Year Interval, Philippines: 2010 - 2045 (Medium Assumption).

**Figure 16: DoE Historical and Forecast System Peak Demand, and National Electricity Sales per Region (MW)**

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Source: National Grid Corporation of the Philippines. (2021). Transmission Development Plan 2021-2040 Consultation Draft; and Department of Energy. (2021). Power Statistics: Sales and Consumption per Grid, by Sector as of April 2021.

The DoE prepares the Philippine Energy Plan (PEP), which issues demand-side and supply-side forecasts based on the Philippine Development Plan (PDP) and governmental policy goals. The PEP considers two scenarios – a Reference Case, which projects business as usual and a Clean Energy Scenario that assumes 10,000 MW of renewable electricity and LNG by 2040. Projected electricity consumption growth rates are similar to NGCPs with a CAGR of 6.7% under the Reference Case scenario and 6.5% under the Clean Energy Scenario.<sup>66</sup> In both outlooks, the electrification of transportation is expected to drive a large portion of future demand growth. While the transportation sector currently represents less than 0.1% of overall electricity consumption, its share is expected to grow to 4.5% of total electricity consumption by 2040 under the Reference Case and 9.1% under the Clean Energy Scenario, and. All told, this equates to approximately 15,500 GWh of new demand under the Reference Case and 30,000 GWh under the Clean Energy Scenario. This is equivalent to about a fifth and a third, respectively, of total electricity consumption in 2020. In particular, the DoE expects new light railway systems and the penetration of electric vehicles in the market to drive this growth.<sup>67</sup>

In terms of generation capacity, the PEP projects installed capacity to reach 50.9 GW in 2030 and 90.6 GW in 2040 under its Reference Case, compared to 50.7 GW in 2030 and 93.5 GW in 2040 in the Clean Energy Scenario. By contrast, total installed capacity in 2020 was 25.2 GW, with 17.0 GW in Luzon, 3.8 GW in Visayas, and 4.4 MW in Mindanao.<sup>68</sup>

## 1.2. STRUCTURE OF THE POWER SECTOR

### 1.2.1. Key Industry Reforms

The EPIRA, passed in 2001, mandated significant industry structural, market, and ownership reforms. Prior to these reforms, transmission, generation, and grid operation services were undertaken by the government-owned National Power Corporation (NPC).<sup>69</sup> Over the past two decades, the Philippine electricity sector has become substantially unbundled, privatised, and commercially oriented<sup>70</sup>. Reform and deregulation efforts have encompassed all sectors – generation, transmission, distribution, and retail sales – and have led to active private sector participation across the power sector value chain.<sup>71</sup>

The EPIRA continues to provide the legislated foundation for the full liberalisation and unbundling of the power sector. The EPIRA promotes competition through the privatisation of NPC's distribution assets, non-Independent Power Producer (IPP) power generation assets, and the electricity transmission sector, in effect widening private sector participation beyond already-existing IPP projects.<sup>72</sup> EPIRA allows NPC to retain smaller transmission and generation assets for the electrification of remote areas (as further discussed in Section 2.1.1). By restructuring NPC and absorbing NPC's Philippine Peso (PhP) 200 billion debt, EPIRA established a new National Transmission Corporation (TransCo), the legal owner of the transmission grid, as well as the Power Sector Assets and Liabilities Management Corporation (PSALM). PSALM is an asset management corporation wholly owned

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and controlled by the government and is tasked with overseeing the privatisation or effective transfer of control of the NPC's remaining owned or contracted generation assets.<sup>73</sup>

In initiating the liberalisation of the power sector, EPIRA paved the way for NGCP to become a concessionaire of the transmission operations from TransCo, and it also bans NGCP's shareholders from owning any other interests in the sector.<sup>74</sup> The Act also requires NGCP to connect and wheel power in the transmission system on a non-discriminatory basis.

The EPIRA also established the framework that created the WESM, which commenced operations in Luzon in 2006 and later extended Visayas in 2010. The WESM is also planned to include Mindanao. The EPIRA places an obligation on DUs and ECs to supply electricity in the least cost manner to end-users.<sup>75</sup> The EPIRA led to the formation of the Philippine Electricity Market Corporation (PEMC) to run the WESM on an interim basis until that responsibility could be handed over to an independent market operator, a transfer that occurred in September 2018 when the market operations of WESM were handed over to the newly formed Independent Electricity Market Operator of the Philippines (IEMOP), although PEMC still retained the role of governing the WESM.<sup>76</sup> Additionally, the Energy Regulatory Commission (ERC) was created to combine quasi-judicial, quasi-legislative, and administrative functions as an independent regulator for the energy market. EPIRA mandated the eventual creation of a WESM Reserve, however, this instruction has yet to be implemented.

The reforms under EPIRA were wide ranging and led to the restructuring and unbundling of tariffs into generation, transmission, distribution, and system loss charges, as well as a variety of other recovery charges and taxes.<sup>77</sup> The EPIRA reforms led to the adoption of more cost-reflective electricity pricing and the elimination of material subsidies in the new WESM and throughout the Philippine energy sector. Additionally, the Act mandated the adoption of performance-based regulation for electricity transmission and distribution systems.<sup>78</sup>

The EPIRA set out many longer-term objectives, as well as interim milestones. The EPIRA proposed open access and retail competition to enable end-users to select their electricity suppliers, and distribution utilities.<sup>79</sup> This EPIRA proposal subsequently gave rise to RCOA, wherein retail supply options were first offered to large customers in 2013. Phases 1, 2 and 3 of RCOA regulation have now been implemented, allowing electricity end-users with an average peak demand of 500 kilowatts (kW) and above to choose their power supplier. Aiming to be implemented in January 2022, Phase 4 will extend retail choice to end-users of greater than 100 kW peak demand. Full implementation of the final Phase 5 is to be achieved in January 2023, which will allow any end-user with over 10 kW to choose their supplier.<sup>80</sup> Further achieving EPIRA's goals, PSALM had privatised over 70% of NPC's contracted capacity in Luzon and Visayas by 2010.<sup>81</sup> One of the remaining goals involves extending WESM to Mindanao are also goals to begin WESM's commercial operations in Mindanao in 2021.<sup>82</sup>

### **1.2.2. Wholesale Market and Supply**

Established under the EPIRA and introduced in 2006, the WESM serves both Luzon and Visayas and is planned to be extended to Mindanao in 2021.<sup>83</sup>

The WESM's market design is relatively more comparable to wholesale market designs found in New Zealand, Singapore, Eastern Australia (the National Electricity Market or NEM), and ERCOT (Texas), as examples for reference. The WESM operates as a pool market where both contracted and uncontracted capacity are bid into the market.<sup>84</sup> The WESM is a nodal market in which prices are separately determined at each numerous grid injection and offtake points.<sup>85</sup> The intention is also for the WESM to incorporate a reserve market, specifically regulation and contingency reserves, which is targeted for launch in 2022.<sup>86</sup>

The generation sector is substantially privatised with an active development and investment environment. There is a diverse mix of ownership among privately-owned power generation companies, known as Independent Power Producers (IPPs). Key local market participants include major domestic companies including San Miguel Corporation, Aboitiz Power, First Gen, and Energy Development Corporation.<sup>87</sup> Alongside IPPs, PSALM continues to control around 10% of the overall generation capacity in the market as of 2020, as there remains some capacity, predominately in Luzon and Mindanao,<sup>88</sup> that is yet to be privatised,<sup>89</sup> PSALM provided a recent update (2021) on its progress against its privatisation objective.<sup>90</sup>

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### 1.2.3. Distribution Utilities and Demand

The demand and offtake environment in the Philippines is highly diverse. Small customers purchase electricity from their local DU or EC, whilst larger customers, currently with demand greater than 500 kW and whom have received a Certificate of Contestability by the ERC, are deemed 'contestable' and can elect to purchase electricity through a retailer rather than their DU.<sup>91</sup> Both DUs and ECs are licensed by the ERC to sell electricity to end-users in their distribution franchise areas.<sup>92</sup> EPIRA Section 43(f) mandates the ERC's power in overseeing both types of DU, but EPIRA also mandates the National Electrification Administration (NEA) to regulate ECs.<sup>93</sup>

As private investor-owned utilities, DUs privately own their distribution assets, while ECs cooperatively own their assets unless they default on a loan from PSALM.<sup>94</sup> DUs and ECs can purchase wholesale electricity through PSAs, which are bilateral contracts with generation company for the purchase and supply of power, or from the WESM spot market.<sup>95</sup> There are 17 DUs and 119 ECs currently in operation, with the former accounting for 62.1% of electricity sales and largely operating in urban and industrialised areas.<sup>96</sup> The main DUs include Meralco in Metro Manila, VECO in Cebu, and Davao Light & Power Co. in Davao. In 2019, these three DUs alone accounted for 49.7% of electricity sales in the Philippines.<sup>97</sup> ECs, by contrast, are non-profit and member-owned organisations that typically serve smaller urban and rural areas.

Mandated by the EPIRA, the ERC sets wheeling rates for DUs for each regulatory period.<sup>98</sup> The ERC aims to reasonably compensate the PIOUS for economically efficient costs and risks incurred.<sup>99</sup> Wheeling charges are based on PIOUS revenue applications for each regulatory period and incorporate a forward-looking analysis of forecast cash flow requirements. For ECs, wheeling charges have tariff caps for each tariff component that are allocated based on their defined group (determined by number of customers and sales).<sup>100</sup> Within these categorised tariff caps, the ERC sets wheeling charges for ECs based on economic efficiency.

End-user electricity tariffs in the Philippines are cost reflective as there are no subsidies, while the tariff structure is unbundled into various charges. Generation charges tend to represent around 50% of the retail cost of power, while transmission charges are a pass-through of charges from NGCP.<sup>101</sup> Generation charges are adjusted quarterly to reflect changes to fuel and IPP procurement costs using the Generation Rate Adjustment Mechanism (GRAM).<sup>102</sup> Distribution charges are as described above.

Since the implementation of RCOA in 2013, Retail Electricity Suppliers (RESs) have also been able to supply contestable customers. Each retailer is licensed by the ERC. As of March 2021, there were 2,919 contestable customers and 117 retail electricity suppliers. An estimated 89% of these contestable customers were located in Luzon and the remaining 11% in Visayas.<sup>103</sup> These contestable customers were almost equally split between the industrial and commercial sectors. As of January 2021, retail contestability has been further extended to customers that have an average peak demand of 500 kW or greater.<sup>104</sup>

### 1.2.4. Transmission

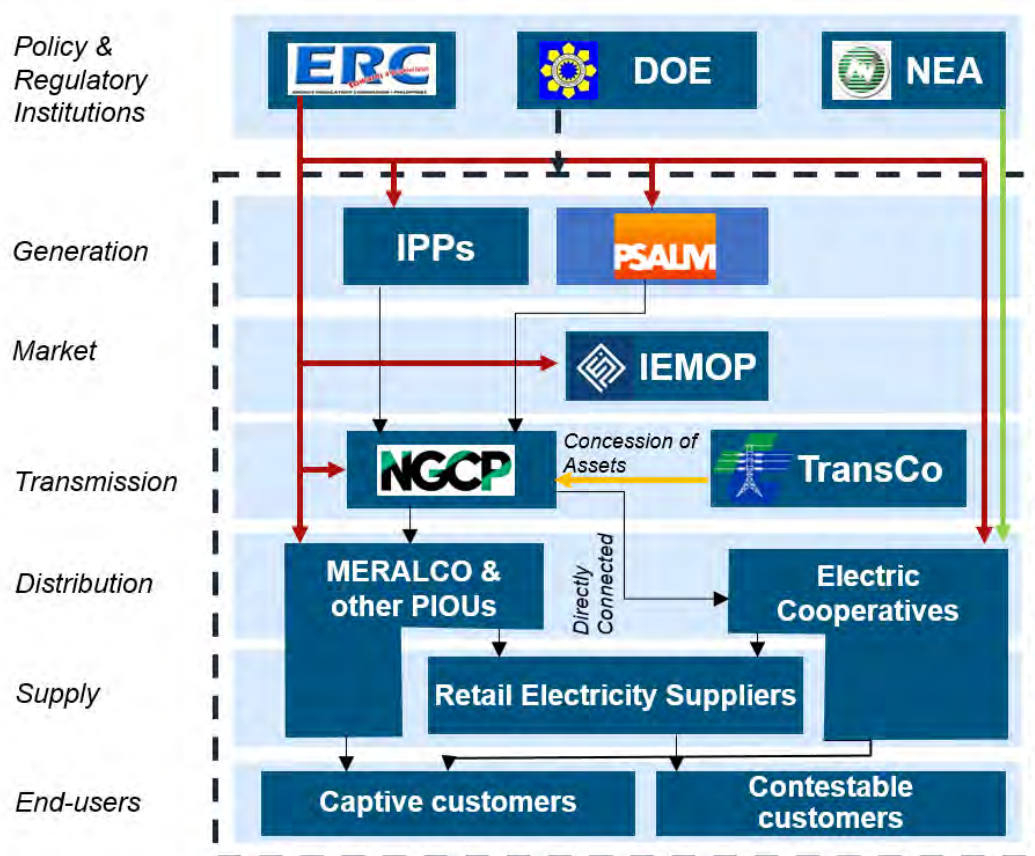
The National Transmission Corporation, also called 'TransCo' is the government entity that owns the transmission network and is mandated to provide open, non-discriminatory access to all electricity grid users.<sup>105</sup> In 2009, NGCP, a consortium of corporations, won a 25-year concession to operate, invest in, and maintain TransCo's network.<sup>106</sup> Under the concession agreement, NGCP is responsible for "operating, maintaining, and developing the country's state-owned power grid."<sup>107</sup> TransCo continues to be the legal entity that owns all transmission assets that are operated and developed by NGCP.

Similar to distribution charges from DUs and ECs, wheeling rates for use of the transmission network are approved by the ERC.<sup>108</sup> Wheeling charges are passed through by DUs or retailers directly to customer bills.

### 1.2.5. Governance and Regulation

Figure 17 summarises key government and agency stakeholders, in addition to the categories of private sector participants. Each of these key government and agency stakeholders is discussed below.

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**Figure 17: Current Structure of the Philippine Power Industry**

Source: The Lantau Group (2021).

The **Department of Energy (DoE)** is responsible for energy policy and planning, including the formulation of the Philippines Energy Plan (PEP 2016-2030, and PEP 2017-2040) and the Power Development Plan.<sup>109</sup> While the PEP sets out targets for development across the energy sector, the Power Development Plan is a master plan that integrates all development plans for generation, supply, transmission, and distribution for both on- and off-grid plans. The DoE reports to the Office of the President and supervises the reform process of the energy sector following EPIRA. The DoE oversees PSALM and TransCo, in addition to the government-controlled entities within the energy sector such as the National Electrification Administration (NEA). The DoE appoints senior officials for these organizations and coordinates strategy, including for privatization, generation mix, system upgrades, and electrification, among these entities. The DoE oversees the privatization of government assets and deregulation in the energy sector such as the RCOA regulation, the Renewable Energy Act, and EPIRA. The DoE also determines energy generation priorities – for example, recently having decreed a moratorium on new coal-fired projects while allowing full foreign ownership of geothermal projects.<sup>110</sup>

The **Energy Regulatory Commission (ERC)** oversees the regulation of the power industry.<sup>111</sup> Among other duties, the ERC is responsible for approving bilateral PSAs, determining consumer contestability, and setting the distribution wheeling rates of Distribution Utilities (DUs) and Electric Cooperatives (ECs) as well as non-contestable retail rates.<sup>112</sup> For transmission, the ERC sets the transmission wheeling rates and needs to approve NGCP revenues (under the Performance-Based Regulation) and tariffs as well as Ancillary Service Procurement Agreements (ASPAs).<sup>113</sup> The ERC plays a role in approving development plans for transmission that are submitted to the DoE and included in NGCP's Transmission Development Plans (TDP). The ERC approves projects according to the goals of the National Economic and Development Authority's (NEDA's) Philippine Development Plan (PDP). The ERC also enforces the Philippine Grid Code for both transmission and distribution facilities.<sup>114</sup>

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The **National Electrification Administration (NEA)** is responsible for rural electrification and assisting the ECs that service less-developed regions of the Philippines.<sup>115</sup> The NEA is a government-owned corporation formed in 1969 through the RA 6038 to develop the country through rural electrification.<sup>116</sup> In 1988, NEA shifted from focusing on total electrification to focusing on strengthening rural electrification by managing ECs and making ECs more competitive.<sup>117</sup> The NEA provides financial, institutional, and technical services to ECs. Since EPIRA in 2001, NEA's franchising functions were shifted to Congress, before being granted to the ERC in 2006. Franchising grants members of the public the right to operate and EC in a designated area.<sup>118</sup> With EPIRA, NEA also undertook several new roles:

- Act as guarantor for EC or small DU purchases of electricity in WESM;
- Identify and assist ECs that need either performance improvement or rehabilitation;
- Monitor ECs and prepare them for operating and competing in a deregulated market. Strengthen EC technical capability, management, and financial viability; and
- For ECs with significant financial deficiency, NEA is tasked with taking them over and sustaining electricity delivery while they undergo rehabilitation.

Governed by representatives of the electricity industry and independent members, **the Philippine Electricity Market Corporation (PEMC)** is a non-profit entity that reports to the DoE and is mandated to manage the WESM.<sup>119</sup> PEMC previously filled the role of market operator before handing over the role to the newly formed **Independent Market Operator of the WESM (IEMOP)** in 2018.<sup>120</sup> PEMC continues to govern the WESM through the Philippine Electricity Market Board of Directors and the WESM Governance Committees.<sup>121</sup>

Since its inception on 26 September 2018, IEMOP operates as both the Independent Market Operator (IMO) of WESM and as the Central Registration Body (CRB) for the retail electricity market.<sup>122</sup>

For the WESM, IEMOP manages the platform for wholesale electricity trading, as well as processing bids and offers for electricity, forecasting demand, calculating real-time market prices and dispatch schedules, monitoring day-to-day trading, handling billing, settlement, and collections, as well as the registration of new entrants. IEMOP also has authority to impose penalties for breaches of market rules.<sup>123</sup> IEMOP also produces hourly generation schedules which the system operator, NGCP, uses to instruct dispatch of generators. Unlike PEMC, IEMOP is autonomous and private even though it acts under DoE and ERC mandates.

As CRB for the retail market, IEMOP operates through RCOA and aims to foster competition. IEMOP maintains a registry of suppliers and contestable customers, tracks market transactions, and facilitates customer-switching. IEMOP will also play a pivotal role in being primary registrar for the Renewable Energy Market (REM) which is scheduled to open in 2021. The REM will serve as the venue for trading Philippine Renewable Energy Certificates (RECs).

### 1.3. POLICY ENVIRONMENT

As in other jurisdictions, electricity policy goals often form part of broader social policies. In the Philippines, the most recent broad policy vision is *Ambisyon Natin 2040* ("Our Vision 2040"), which was announced in 2016 by the then-incoming Duterte administration. To support these broad nationwide policy goals, individual agencies typically have their own plans for five-year terms. Periodically, the Philippines Government publishes a series of plans to direct the energy industry to achieve socioeconomic goals for the country. These schemes fall within economy-wide plans for development and can include goals for NGCP's transmission operations. President Duterte's six-year term ends in 2022; it'll be his final (under current laws he cannot serve another term).<sup>124</sup>

#### 1.3.1. Key Policy Drivers

*Ambisyon Natin 2040* sees the Philippines as a "prosperous, predominantly middle-class society by 2040," and requires all plans of government agencies to be consistent with their vision to (1) ensure 24/7 reliable energy services, (2) create wealth for Filipinos, (3) empower consumers, (4) eradicate poverty, and (5) establish the Philippine agenda within the international community.<sup>125</sup> *Ambisyon Natin 2040* designates the following sectors

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as priorities: housing and urban development, manufacturing, connectivity, education, tourism, agriculture, health and wellness, and financial services.

Announced in 2016 and aligned with AmBisyon Natin 2040, the 'Build Build Build' program (BBB) has been a centerpiece of the Duterte Administration. To address the infrastructure backlog in the Philippines, BBB envisages an infrastructure 'golden age' and aims to accelerate public infrastructure spending to 7.3% of GDP from 2.9% in the previous administration.<sup>126</sup>

The PDP is a plan published by the government every six years that sets out key goals and targets for major segments of the economy, with the most recent plan spanning 2017-2022. Historically, PDPs can signal or presage key policy initiatives and reforms such as streamlining the approval processes for energy projects by providing the DoE the authority to designate 'Projects of National Significance.' The most recent PDP incorporated expectations to expand WESM to Mindanao. Accordingly, NGCP and the DoE have advanced the Mindanao-Visayas interconnection project (MVIP). The PDP has also aligned with fast-tracking the Lanao to Davao 230 kilovolt (kV) Mindanao backbone transmission line development as well as outlining the need to further develop Mindanao's grid structure for access and reliability.

The PDP laid out plans to implement RPS, Green Energy Auctions (GEAC), and the REM in 2021. The REM is to be a platform for trading RE certificates equivalent to an amount of renewable electricity. The REM is intended for mandated participants who need to comply with RPS obligations.<sup>127</sup> Led by IEMOP and the DoE, GEAC is to be a competitive auction for procurement of supply from RE projects for mandated RPS participants. The first such auction is indicated to occur in the second half of 2021.<sup>128</sup>

The PDP also has outlined specific obligations for NGCP to adhere to 'priority dispatch' and 'must dispatch' protocols. The DoE designates intermittent renewable resources, namely wind, solar, run-of-river hydro, and ocean energy, whether or not under FIT system, as 'must dispatch.' Designated 'priority dispatch,' biomass plants under the FIT system are given preference over non-renewable generation.<sup>129</sup>

Normally published by the DoE bi-annually, but last published in 2018, the PEP is a national-level policy plan sets out a forecast for major energy supply and demand metrics.<sup>130</sup> Guided by PDP's national strategy for development, the PEP provides a sectoral roadmap for energy. The PEP also promulgates a development strategy for the energy sector in the short-, medium-, and long-term. The PEP indicates a hierarchy of priorities in energy policy in an omnibus roadmap. The PEP has historically set the tone for energy development in the Philippines. The PEP specifies goals for PDP-defined 'optimal' fuel capacity mix in generation which has previously been directed towards electricity self-sufficiency and currently towards increasing renewable capacity.

### 1.3.2. Government Targets

In tandem with these ambitious goals, other medium-term targets have also been set out by five-year term plans. Each of these plans identifies its alignment with AmBisyon Natin 2040's goals for inclusive growth.

#### *Philippine Development Plan (PDP)*

The PDP 2017-2022 set out several tangible goals that it aims to achieve by the end of 2022. These targets aim to lay the foundation for further inclusive growth leading up to the next mid-term plan and toward 2040.<sup>131</sup> Several of these targets are relevant to the electricity sector:<sup>132</sup>

- Increase infrastructure spending in GDP from 5.1% in 2016 to 7.4% in 2022;
- Increase available capacity supply in the Philippines from 16,791 MW in 2016 to 24,248 MW by 2022. With Luzon increasing from 12,394 MW in 2016 to 17,272 MW in 2022, Visayas from 2,383MW to 3,105 MW, and Mindanao from 2,014 MW to 3,871 MW; and
- Increase electrification rates from 89.6% in 2016 to 100% by 2022.

#### *Philippine Energy Plan (PEP)*

The most recent PEP, PEP 2018-2040, has aimed to build on the October 2016 Executive Order (EO5) which adopted the 25-year long term vision of AmBisyon Natin 2040.<sup>133</sup>

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Consistent with this Executive Order, PEP 2018-2040 sets out several objectives:

- To bolster the use of clean and indigenous sources of energy for electricity generation in the Philippines. The PEP aims to do so to meet the growing economic development of the country;
- Mitigate wasted energy by embracing and developing energy efficiency tools; and
- To balance environmental protection, economic growth, reasonable energy prices for services and reliable energy supply.

The central policy of the most recent PEP is to simultaneously accommodate Philippine industrialisation, while bolstering the proportion of renewable energy in the capacity mix. The PEP 2018-2040 has provided a Reference Scenario and a Clean Energy Scenario for capacity outlook, power generation, and desired power projects by 2040 based on peak demand projections. The Reference Scenario implies business as usual with the continuation of present development trends and the completion of all committed power projects as well as the planned interconnection of Mindanao. The Clean Energy Scenario implies the same assumptions as the reference scenario as well as the addition of 10,000 MW of renewable and LNG aggregate capacity.<sup>134</sup>

For transmission, both the reference and Clean Energy Scenarios require the completion of Mindanao interconnection and small island interconnections such as Mindoro-Batangas, Semirara Occidental Mindoro, and Sulu-Basilan.<sup>135</sup> The Clean Energy Scenario requires expansion of transmission facilities for integration of new Competitive Renewable Energy Zones (CREZs) as well as the expansion of transmission facilities to integrate the planned 10,000 MW of renewable and LNG capacity.<sup>136</sup> CREZs are discussed in more detail in Section 2.3.1.

## 2. TRANSMISSION LANDSCAPE WITHIN THE PHILIPPINES

### 2.1. TRANSMISSION LANDSCAPE AND GEOGRAPHIC SCOPE

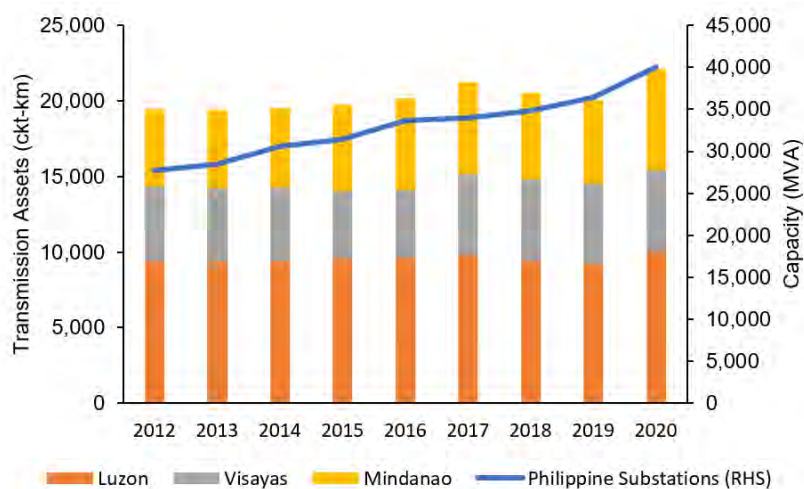
The Philippines is an archipelago made up of 7,641 islands characterised by on-grid and off-grid power systems.<sup>137</sup> Development of the main transmission grid system has naturally had to take into account the country's geography, in particular to ensure efficient electricity transmission between the interconnected grids and sub-grids. Indeed, two of the main grid-connected regions, Luzon and Visayas, are interconnected via a 440 MW High Voltage Direct Current (HVDC) submarine cable, while the Visayas region itself consists of five interconnected sub-grids connecting Leyte, Cebu, Bohol, Negros, and Panay. The third grid-connected region, Mindanao, operates independently at present though the completion of the Mindanao-Visayas Interconnection Project (MVIP) by NGCP, currently expected in March 2022, will result in a unified transmission grid. The resulting unified grid and wholesale market will operate across all three main regions and will collectively account for around 98% of national electricity demand.

Luzon, Visayas, and Mindanao are each characterised by a single major load centre that consumes a disproportionately large proportion of their respective region's demand. These load centres are Metro Manila in Luzon, Metro Cebu in Cebu, Visayas, and Davao City in Mindanao. In terms of scale, Luzon's transmission grid is the largest in the country with 10,032 circuit kilometres (ckt-km), compared to 5,378 ckt-km in Visayas and 6,699 ckt-km in Mindanao. Across the three regions as of December 2020, the transmission system bears a total substation capacity of 40,050 megavolt amperes (MVA) and a combined transmission line length of 22,111 ckt-kms.<sup>138</sup>

Transmission and substation assets in the Philippines have grown alongside electricity demand. From 2012 to 2020, substation capacity has increased by 44.5%, while the amount of transmission lines attached to the main grids have grown by 13.4%.<sup>139</sup> Electricity consumption and peak demand by comparison grew at 40.6% and 42.0% respectively, over the same period. Due to power reliability issues in Visayas and Mindanao, substation capacity has increased by over 70% in regions during this period. Luzon substation capacity increased by 35.4%. Ckt-km of transmission line assets in the Philippines have also grown at different rates across the regions, as NGCP has focused on developing Mindanao's less mature transmission infrastructure. Between 2012 and 2020, Mindanao's transmission assets have increased by 30.2%, while Luzon and Visayas' have grown by 7.0% and 8.2% respectively.

#### **Figure 18: National Substation Capacity and Transmission Assets by Region**

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Source: National Grid Corporation of the Philippines. (2021). *Operations Data: Transmission and Sub-Transmission Assets*.

### 2.1.1. Off-Grid

The definition of an ‘off-grid power system’ in the Philippine context is one that is not connected to the main national grid. A typical example consists of a small island and isolated grid (SIIG) which relies on the NPC for its power supply. NPC operates 275 Small Power Utilities Group (SPUG) plants that generate power in off-grid areas across the archipelago. NPC is also responsible for off-grid transmission and substation assets that are directly connected to SPUGs. With regards to SPUG-related transmission assets, NPC oversees a total substation capacity of 185 MVA and 776 ckt-kms of transmission lines. SPUGs are a part of the DoE’s development plan to electrify remote areas.<sup>140</sup> NEA administers and supervises 21 off-grid ECs whilst the DoE directly oversees one municipal power cooperative (MPC) and one local government unit-owned utility (LGUOU) (which act as local distribution utilities in SIIGs).<sup>141</sup>

As of 2019, there are 181 power generation facilities in off-grid territories, 139 of which are NPC assets. In larger off-grid systems it is possible for a qualified third party (QTP) or new power provider (NPP) to provide power via an off-grid generation station, but the capacity of such plants is miniscule: in 2019, the installed capacity of these plants was 526 MW with a dependable capacity of 419 MW.<sup>142</sup> Overall gross power generation across all facilities reached 1,623 GWh whilst electricity consumption was 1,278 GWh, representing 1.5% of consumption in the main grid area.<sup>143</sup>

## 2.2. TRANSMISSION DEVELOPMENT PLAN (TDP)

### 2.2.1. Objectives of the TDP

NGCP’s Transmission Development Plan is guided by the PDP and the PEP.<sup>144</sup> The TDP outlines NGCP’s plans to expand, develop, and monitor the grid throughout the Philippines. The Plan, which is planned in discussion with the DoE, provides tangible goals and development strategies as well as tangible methods and reinforcements necessary to incorporate future power plants in the grid. The projects included in the TDP are those that are approved by the DoE. The current TDP (2021-2040) is still in draft form and has not been formally approved by the DoE. There is currently no regular revenue approval process from the ERC and projects are being approved on a project-by-project basis. Projects, once approved by the ERC, are eligible for inclusion in the RAB during the ERC’s resets of NGCP’s regulated revenues (see Section 4).

In alignment with AmBisyon Natin 2040, NGCP’s TDP (2021) has adopted the Transmission Resiliency Augmentation for Nationwide Smart Grid Management through Interconnected Systems, Organizations and Networks 2040 (TRANSMISYON 2040). TRANSMISYON 2040 emphasises five-year goals regarding

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resiliency, reliability, electrification, and network development goals for each regulatory period. Table 2 conveys TRANSMISYON 2040s five-year time span and relevant plans for development that will be addressed by each TDP.

**Table 2: TRANSMISYON 2040 Five-Year Goals**

Regulatory Period	2016-2020	2021-2025	2026-2030	2031-2035	2036-2040
	RP4	RP5	RP6	RP 7	RP 8
Title	#OneGrid2020	#Smart2025	#ReadyBy2030	#GridRefresh2035	#TransMision2040
Goal	Mindanao-Visayas Interconnection	Smart Grid	N-1 Contingency	Phase Out Inefficient Fossil Fuels	Renewable Energy
System Peak Demand	16,982 MW	22,812 MW	30,676 MW	41,414 MW	56,136 MW
Description	To enable capacity sharing through interconnection	Transition substations to smart grid	Complete grid looping and reduce system redundancy	Upgrade all transmission assets for grid resiliency	Full integration of available renewable resources

Source: National Grid Corporation of the Philippines. (2021). *Transmission Development Plan 2021-2040 Consultation Draft*.

The TDP is published almost every year. Each of the TDP publications since 2016 has featured an extended planning horizon from the publication year through to 2040. The most recent TDP consultation draft was published in 2020 for the period 2021-2040. TDP 2021-2040 is focused on the following goals over the next 20 years:

- Implementing a grid resiliency program that includes climate change adaptation measures, strengthening existing infrastructure, developing resilience standards, establishing BBB principles, and enhancing the process for selecting both transmission and substation sites;
- Improving transmission planning for the CREZs by focusing on resource potential and terrain features. NGCP aims to expand transmission capacity to CREZs;
- Integrating emerging technologies based on published mandates by the DoE called Department Circulars. These include a variety of Energy Storage Systems, adopting Smart Grid technologies, including Static VAR Compensators, piloting aerial drones for transmission line inspections, centralising substation operations, and establish an online system for monitoring critical transmission assets;
- Establishing a development strategy for 69 kV facilities that will ameliorate issues with overloading transformers. Overloaded transformers shorten the service life of equipment, create system losses, and provide lower voltage electricity. NGCP plans to upgrade existing links between 69 kV facilities on main islands to major DUs;
- Increasing electricity access through off-grid interconnections for smaller, remote islands; and
- Continuous development of the transmission backbone across all three major regions, through reinforcement and expansion.

The transmission development plans that are provided in the TDP are incorporated into the DoE's master plan of development in the power sector: the Power Development Plan. Distinct from the PDP, the Power Development Plan is a master plan that integrates all development plans covering the power sector and therein the generation, transmission, distribution, and supply for both on-grid and off-grid power in the Philippines. Similar to the TDP,

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PEP, and PDP, the Power Development Plan follows AmBisyon Natin 2040. The most recent Power Development Plan is Power Development Plan 2017-2040.<sup>145</sup>

## 2.2.2. Key Drivers of Transmission System Development

In outlining the development of the transmission system, the TDP plays a significant role in defining NGCP's growth. As mandated by EPIRA, plans for transmission system development go through several steps before they are published in the TDP.

Firstly, the DoE provides its input in assessing forecasts for future system peak demand and expectations for the build-out of additional generation capacity. Secondly, NGCP approaches electric power industry stakeholders and market participants for their input. Third, NGCP conducts in-house research through power system studies of the grids requirements over the next 20 years and plans potential projects. Fourth, NGCP presents the projects to DoE and other stakeholders. Finally, NGCP submits the draft plan to DoE for approval, after which a revised TDP is published, including only those projects that were approved by the DoE.<sup>146</sup> Once published, the TDP is used to inform future iterations of the PEP. The most recent published final TDP is TDP 2016-2020, however, there are also published consultation drafts of TDP 2019-2040, TDP 2020-2040 and TDP 2021-2040.

Recently, NGCP's projects have been approved by the ERC on a case-by-case basis.

Project prioritization generally adheres to the following drivers:<sup>147</sup>

- **Load growth:** NGCP focuses on ensuring the adequacy of transmission facilities by addressing overloaded substations and lines;
- **Generation entry:** NGCP focuses on being able to accommodate new generation capacity that comes online and connecting them to the grid. This typically drives transmission backbone development;
- **Power quality and technology:** The installation of new equipment can assist with system efficiencies, real-time monitoring, centralised operation of substations, and the use of automation;
- **Market operation support:** The TDP seeks to incorporate the consideration of the entire electricity market. Projects should aim to integrate grid control and unify market operation;
- **Policy Direction:** NGCP aims to align system development with national- and agency-level goals. The TDP follows DoE-issued policies as they pertain to key technical metrics, energy supply, and safety, environmental, and technical standards. Thus far, projects that have aligned with this impetus include island interconnections, off-grid incorporation, smart grids, resiliency, and CREZs; and
- **System Reliability and Security:** NGCP continuously monitors key technical standards that ensure adequate power supply. Deficiencies in N-1 contingency, network security, and defective assets need to be addressed to mitigate potential or real asset failures. All of these elements need to be addressed to maintain stable system availability.

## 2.3. FUTURE OPPORTUNITIES AND CHALLENGES

### 2.3.1. Variable Renewable Energy Penetration in the Philippine Transmission Grid

Within the Philippines, there is an ongoing drive to transition the generation sector away from fossil fuel-fired power plants and towards renewable energy. To achieve greater penetration of renewables in the WESM and the national capacity mix, the DoE has included as part of the PEP (2018-2040) the formation of 25 competitive renewable energy zones (CREZ) which host the most promising RE resources in the Philippines. The impetus behind the policy – originally promulgated via a DoE circular – is to encourage the development of transmission infrastructure to connect isolated renewable energy supplies to the grid. In this sense, the CREZ policy effectively

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“reduces investment barriers by directing transmission development to the Philippines’ most promising RE opportunities.”<sup>148</sup> The potential greenfield wind and solar capacity across the 25 CREZs is estimated at 152 GW.<sup>149</sup>

The TDP provides an outline of their CREZ Transmission Planning Process for renewable energy expansion, within which, NGCP notes, CREZs are constrained by a lack of existing transmission infrastructure. NGCP aims to finish their transmission plan for CREZs in 2021, although there are already two potential projects proposed by NGCP to increase transfer capacity from CREZs to the grid: the Bolo-Balaoan 500kV transmission line and Balaoan-Laoag 500kV transmission line in Luzon.<sup>150</sup>

Although the potential capacity for hydropower is relatively large, the realisable potential is much lower. Creating new stored hydro facilities has major environmental, societal, and cost implications and are less common than they once were. In the TDP, NGCP has only 300 MW of committed hydro for the CREZ.<sup>151</sup>

**Table 3: Estimated CREZ Opportunity Capacity (MW)**

	Luzon	Visayas	Mindanao
Solar PV	35,031	11,876	11,203
Wind	54,115	25,429	14,443
Geothermal	285	40	40
Hydropower	270,603	1,917	382,514
Biomass	210	71	93

Source: National Renewable Energy Laboratory. (2020). Ready for Renewables: Grid Planning and Competitive Renewable Energy Zones (CREZ) in the Philippines.

### 2.3.2. Climate Change Adaptation and Grid Resiliency

Both NGCP and the DoE have focused on the need to adapt existing energy facilities to the evolving challenges posed by climate change in their planning documents (TDP and PEP, respectively). The Philippines is particularly vulnerable to the fallout from climate change due to its geographic position and status as an archipelago with among the largest coastlines in the world.<sup>152</sup> Recognising the future threats of climate change to the energy sector, the DoE drafted and implemented Department Circular (DC) 2018-01-001, “Adoption of Energy Resiliency in the Planning and Programming of the Energy Sector to Mitigate the Potential Impacts of Disasters.” The DC established a task force constituted by relevant agencies and entities, including NGCP, to draft a national Resiliency Compliance Plan (RCP). One of the mandates of the RCP is “strengthening infrastructure.” This in turn led NGCP to institute its own plans and programs on resiliency in the TDP, which include a plethora of retroactive measures (such as upgrading aged transmission cables and asset replacement) and proactive measures (constructing new transmission lines in a looping configuration and installing underground cables) for safeguarding against climate change. NGCP has earmarked PhP 9.8 billion capital expenditure on resiliency operations from now until 2040, out of a total anticipated capital expenditure of PhP 69.0 billion for the period.<sup>153</sup>

### 2.3.3. Emerging Technologies: Battery Energy Storage Systems

As of August 2020, there are 11.04 MW of installed battery energy storage systems (BESS) capacity in the Philippines of which 10.0 MW are grid-connected in Luzon with the remainder being off-grid capacity in Palawan.<sup>154</sup> Despite the lack of installed BESS capacity at present, the emergent technology is attracting significant commercial interest from local generation companies and market participants whom are seeking to develop larger portfolios of storage in the coming years. BESS is an emergent technology which allows for the provision of ancillary services, transmission congestion relief, and renewables firming, all of which are especially valuable against the backdrop of increasing variable renewable energy penetration in the transmission grid. The non-dispatchable nature of wind and solar power (which will increase in capacity with the future CREZ developments) means that additional resources must be available to provide the necessary ancillary services to

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spontaneous peaks and troughs in demand. BESS can be deployed quickly and flexibly in locations with specific needs for local or general ancillary services (frequency regulation) support. NGCP has compiled a recommended list of BESS sites and capacities, based the value of BESS as a provider of fast response primary reserve (AS), also known as regulating reserves.<sup>155</sup> To date, NGCP has recommended eleven BESS sites on Luzon, totalling 290 MW capacity, five on Visayas totalling 70 MW capacity, and five on Mindanao totalling 90 MW capacity.

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### **3. REGULATION**

#### **3.1. OVERVIEW OF THE REGULATORY FRAMEWORK**

NGCP is regulated by the ERC under the EPIRA law.

Section 43(f) of the Act requires the ERC to establish and enforce a methodology for setting transmission charges (also known as ‘wheeling rates’). The Act specifies that:

- The rates set by the ERC must allow the recovery of just and reasonable costs and a reasonable return on rate base (RORB) to enable NGCP to operate viably;
- The ERC may adopt alternative forms of internationally accepted rate-setting methodology as it may deem appropriate;
- The rate-setting methodology must ensure a reasonable price of electricity; and
- The rates prescribed must be non-discriminatory.

The Act also requires the ERC to establish minimum performance standards, including in relation to system losses, interruption frequency rates and collection efficiency.

#### **3.2. PERFORMANCE-BASED REGULATION**

The ERC has to date applied a form of performance-based regulation (PBR), in which the regulator announces publicly ahead of time that NGCP will have fixed annual entitlements to collect specified amounts of revenue from transmission customers based on the ERC’s forecasts of NGCP’s costs. Under PBR, there is intended to be a shared understanding that NGCP’s actual costs may turn out to be higher or lower than the ERC’s fixed forecasts, in which case NGCP either bears its additional expenditures without recourse to customers or keeps the efficiency gains from the difference between actual and forecast expenses. The expectation is that this scope to under- or out-perform provides NGCP with a strong incentive to minimise its costs and improve its efficiency over time and that the ERC will be able to capture the benefit of lower costs for customers at each periodic ‘reset’ of NGCP’s fixed revenue entitlements. Although this has been the historical precedent for NGCP, the ERC is permitted to switch to an alternative form of control – for example an average price cap in which the company takes volume risk more directly – at future resets.

The ERC’s current methodology for regulating transmission charges is set out in a document entitled “Rules for Setting Transmission Wheeling Rates for 2003 to around 2027.”<sup>156</sup> The Rules specify that the ERC will regulate rates using defined Regulatory Periods. The first regulatory period ran until 31 December 2005. The second regulatory period was 1 January 2006 to 31 December 2010 and the third Regulatory Period was 1 January 2011 to December 2015. The Rules state that each subsequent Regulatory Period must be five years in duration.

The Rules then specify in detail:

- The regulatory process and timelines that both the ERC and NGCP must adhere to in order for the methodology established by the Rules to be administered and applied in a timely manner;
- The framework and principles that the ERC will adopt when setting the maximum transmission wheeling rates that may be charged by NGCP;
- The annual rate verification and adjustment process which the ERC must undertake; and
- The performance indicators, performance targets and reporting arrangements with which NGCP must comply.

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### 3.3. RATE-SETTING PROCESS / TIMETABLE

The ERC's Rules state that the steps to be followed ahead of a determination by the ERC of NGCP's maximum charges for a new Regulatory Period should be as follows:

- Not less than 21 months before the end of each Regulatory Period – the ERC must publish a regulatory reset issues paper and call for written submissions on the matters raised therein;
- At least 17 months prior to the end of the Regulatory Period – the ERC must instruct NGCP to retain an independent expert or experts to advise on matters relating to costings and expenditure forecasts;
- Not less than nine months before the end of the Regulatory Period – the ERC must publish a draft determination of NGCP's revenue entitlements for the forthcoming five-year period and invite submissions from interested parties;
- Between seven and five months before the end of the Regulatory Period – the ERC must hold public hearings; and
- Not less than three months before the end of the Regulatory Period – having considered all the representations made to it, the ERC must publish a final determination.

### 3.4. RATE-SETTING: THIRD REGULATORY PERIOD (2011-15)

During the third regulatory period, 2011-15, the ERC elected to regulate NGCP's rates via a revenue cap as they had in the previous regulatory periods. Under this arrangement, NGCP was entitled to collect specified amounts of revenue set by the ERC during each calendar year.

The ERC calculated NGCP's annual revenue entitlements on a forward-looking basis as the sum of the following projected financial building blocks:

- Operating and maintenance expenditure (Opex);
- Taxes other than corporation tax (Tax<sub>m,t</sub>);
- Regulatory depreciation (RegDepn);
- Return on capital;
- Corporation tax (Tax<sub>p</sub>).

The value of the return on capital building block was calculated in accordance with the value of NGCP's Regulatory Asset Base (RAB) plus an allowance for working capital (WC) multiplied by the ERC's estimate of NGCP's weighted average cost of capital (WACC).

NGCP's maximum annual revenue entitlement (ARR) for each year of the third regulatory period was therefore:

$$ARR_t = Opex_t + Tax_{m,t} + RegDepn_t + [(RAB_t + WC_t) \times WACC] + Tax_{p,t}$$

The intent behind this framework was that an efficient and prudent operator should have an expectation that it will be able to recover, reasonably, its incurred costs in full. The recovery of efficient costs occurs in the corresponding year in the case of opex, financing costs and tax, and over the life of built assets in the case of capital costs.

In each case, the recovery of costs in full was subject to the ERC's right to challenge NGCP's expenditure and tax projections, NGCP's asset valuation and NGCP's estimate of its cost of capital. The ERC stated in its determination document that its objective in regulating NGCP's transmission charges is to ensure that "service is provided with the quality demanded by customers at a price that is comparable with that a provider would be able to charge for a similar service in a competitive environment."<sup>157</sup> To this end, the ERC devoted a sizeable amount

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of time over a two-year period to understanding, reviewing and – where necessary – adjusting NGCP’s projected costs and revenues.

This experience illustrates that under business as usual, the review process that the ERC conducts at each regulatory reset is the single most important determinant of the profits that NGCP is able to earn and, hence, the value that it is able to extract out of the concession.

The Rules give the ERC a certain amount of discretion as to how it applies its challenge, meaning that the precise approach that the ERC takes when calculating each building block may vary from one reset to the next. The ERC’s approach to calculating each term in the formula in its determination for the third regulatory period is summarised briefly in the table below.

**Table 4: ERC Approach to Calculating NGCP’s ARR for the Third Regulatory Period**

Building block	Methodology
Opex	The ERC engaged an expert consultant to conduct a full review NGCP’s five-year opex projections. The ERC set the values of the Opex term in the ARR formula in line with its consultant’s recommendations.
RAB	<p>NGCP’s RAB was calculated using the formula:</p> $RAB_t = RAB_{0,t} + CAPEX_t - RegDepn_t - Disposals_t$ <p>where</p> <p><math>RAB_{0,t}</math> was the rolled forward asset value for year t-1</p> <p><math>Capex_t</math> was the ERC’s forecast of capital expenditure in year t</p> <p><math>Disposals_t</math> was the ERC’s forecast of receipts from disposals of assets in year t.</p> <p>The ERC engaged an expert consultant to value the transmission asset base as at 31 December 2008 on an optimised depreciated replacement cost basis. This valuation was used as the value for RAB2008.</p> <p>The ERC also engaged an expert consultant to conduct a full review of NGCP’s planned capex. The ERC set the values of the Capex terms in the RAB formula in line with its consultant’s recommendations.</p>
Land Capex	The ERC’s Capex term excluded all expenditures on land related costs. These expenditures were identified as a separate line item.
RegDepn	Depreciation was calculated on a straight-line basis as the depreciated optimised replacement cost of NGCP’s assets divided by remaining asset life.
WC	The ERC set NGCP’s working capital allowance as a percentage of the ERC’s forecast of annual Opex less an allowance for bad debts.
WACC	<p>The WACC was set in line with the ERC’s estimate of the weighted average of NGCP’s equity finance and debt finance costs.</p> <p>NGCP’s cost of equity was calculated in accordance with the capital asset pricing model (CAPM) framework. The ERC’s estimate of the cost of equity was 20.26%.</p> <p>NGCP’s cost of debt was calculated as a premium over Philippines government bond yields. The ERC’s estimate of the cost of debt was 12.27%.</p> <p>The weights for the cost of equity and the cost of debt were 33% and 67%.</p> <p>The resulting WACC was 15.04% on a nominal, vanilla basis.</p>

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Building block	Methodology
Taxp	Under the terms of its concession, NGCP does not pay income tax (NB: NGCP instead pays a franchise tax of 3% of its revenues). The ERC therefore set the value of Taxp to zero.
Taxm	The ERC made forecasts of NGCP's expected property tax and VAT payments.  (The 3% national franchise tax was not included in the ARR but is recovered separately through a surcharge on customers' invoices.)
Net efficiency adjustment	The ERC's determination provided for a capex efficiency adjustment and an opex efficiency adjustment via which some of the financial benefit/disbenefit arising from NGCP's under-/over-spending against its allowances in the second regulatory period was carried over into the third regulatory period.  The net value of this adjustment was negative. This was attributable principally to NGCP over-spending in 2010.

### 3.5. ANNUAL RATE VERIFICATION AND ADJUSTMENT PROCESS

NGCP is responsible for fixing the specific tariffs that it uses to charge its customers. The chosen rates must be set at a level that is compatible with NGCP's regulated revenue cap.

NGCP is required to submit its proposed tariffs to the ERC in October of each calendar year together with a statement that demonstrates the compliance of those rates with the ERC's revenue cap and Rules. The ERC then has until 11 December either to approve NGCP's rates or direct NGCP to make amendments to its prices prior to the start of the new charging year. The tariffs in each charging year will reflect the sum of NGCP's maximum allowed revenue for that year plus/minus any under-/over-recovery of NGCP's revenue cap from preceding charging years. The smoothing calculations for annual revenue requirements across each five-year period on a net present value neutral basis allows maximum allowed revenue to increase each year in line with inflation.

### 3.6. PERFORMANCE STANDARDS AND INCENTIVES

The Rules specify that the ERC must measure NGCP's performance through at least the following metrics:

- Number of interruption events;
- A sustained average interruption frequency index;
- A momentary average interruption frequency index;
- A sustained average interruption duration index;
- A system interruption severity index;
- Frequency of tripping;
- Average forced outage duration;
- Accumulated time error;
- Number of frequency limit violations;
- Number of voltage limit violations; and
- System losses.

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As part of its oversight of NGCP's service, the ERC has hitherto implemented a financial incentive scheme under which NGCP is able to earn revenue rewards or may have to pay revenue penalties based on its annual performance against a specified basket of performance benchmarks. Since the start of the third regulatory period, the maximum reward or penalty applied by the ERC has been 3% of NGCP's revenue cap. NGCP continues to monitor those metrics that formed part of the RP3 performance incentive scheme.

The detailed design of the ERC's current performance incentive scheme is set out in the ERC's 2011 determination document.<sup>158</sup>

### **3.7. REGULATION SINCE 2016**

The third regulatory period ended on 31 December 2015. At the start of 2014, NGCP initiated the process for a regulatory reset for the fourth regulatory period, 2016-20. However, the ERC did not conclude a full review of NGCP's five-year revenue entitlement.

Instead, in the absence of a new determination from the ERC, NGCP filed in October 2015 for an interim maximum annual revenue (iMAR) for the regulatory year 2016. In an Order issued in December 2016, ERC authorised NGCP to implement an iMAR<sub>2016</sub> of PhP 43,789 million. Although lower than the MAR<sub>2015</sub>, this was within 3.5% of the PhP 45,287 million requested by NGCP. The ERC's Order also authorised NGCP to bill the approved iMAR<sub>2016</sub> to transmission customers until the issuance of the ERC's final determination for the fourth regulatory period.

In light of the ERC's failure to conduct full review of the fourth regulatory period or to commence the review for the fifth regulatory period, 2021-25 NGCP filed in October 2019 for an iMAR for the regulatory year 2020. In an Order issued in February 2020,<sup>159</sup> the ERC granted NGCP interim relief through the provisional approval of an iMAR<sub>2020</sub> of PhP 47,052 million.

The revenue entitlements in both of these Orders are expressly interim values and are "subject to adjustment during the next rate-setting process for NGCP."<sup>160</sup>

Where normally capital investments would be proposed by NGCP and approved by the ERC during a regulatory reset process, NGCP has sought case-by-case approvals from the ERC for the implementation of its capex for the period 2016 to 2025. The ERC has to date issued 14 approvals and provisional approvals covering PhP 102 billion of capex. The original capex filings for these approved projects covered PhP 202 billion. A further 16 applications are pending – in part or in full – covering PhP 448 billion of capex. NGCP has also filed 13 force majeure event claims to for the fourth regulatory period amounting to approximately PhP 799m.

Notwithstanding the steps that NGCP has taken, detailed above, there is no certainty at the time of writing as regards NGCP's future regulated revenue entitlements, including as regards any retrospective actions that the ERC may take to recalculate NGCP's allowed revenues for the charging years from 2016 onwards.

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## DESCRIPTION OF THE ISSUER

Synergy Grid & Development Phils., Inc. (the “**Issuer**”, “**SGP**” or “**Synergy**”), a corporation organized and existing under Philippine law, is a holding company listed on the PSE under the symbol “SGP.” The sole operating asset of SGP is the National Grid Corporation of the Philippines (“**NGCP**”, the “**Company**”), which SGP holds through its direct and indirect shareholdings in the Intermediate Holding Companies (as defined below), and is expected to remain so in the near term. As of the date of this Prospectus, SGP indirectly controls 60% of the outstanding capital stock of NGCP through its subsidiaries, OneTaipan Holdings, Inc. (“**OneTaipan**”) and Pacifica21 Holdings, Inc. (“**Pacifica21**”). In particular, OneTaipan indirectly holds an equity interest of 30% plus one share in NGCP through its wholly-owned company, Monte Oro Grid Resources Corporation (“**Monte Oro**”) and Pacifica21 indirectly holds an equity interest of 30% minus one share in NGCP through its wholly-owned company, Calaca High Power Corporation (“**Calaca**”) (each of OneTaipan, Pacifica21, Monte Oro and Calaca, are collectively referred to as the “**Intermediate Holding Companies**”, and together with NGCP, the “**Consolidated Subsidiaries**”).

Synergy’s vision is to be a strong and stable business enterprise that adds value to its shareholders and other stakeholders. Its mission is to build a prosperous enterprise through strategic investments in power, energy, utilities and other allied businesses. Pursuant to its Articles of Incorporation, SGP is authorized to engage in power, energy, utilities, infrastructure and allied businesses, including investing in such entities. As of the date of this Prospectus, none of SGP and the Intermediate Holding Companies are engaged in significant business operations and the sole operating asset is NGCP.

For the six months ended June 30, 2021 and for the years ended December 31, 2020, 2019 and 2018 the Group had consolidated revenues of ₱24,186.2 million (U.S.\$498.2 million), ₱48,606.6 million (U.S.\$1,001.3 million), ₱45,396.5 million and ₱45,402.0 million, respectively and net income of ₱12,499.1 million (U.S.\$257.5 million), ₱23,435.8 million (U.S.\$482.8 million), ₱20,020.2 million and ₱20,945.0 million, respectively, for the same periods.

The total net income attributable to equity holders of SGP was ₱5,012.1 million (U.S.\$103.2 million), ₱9,394.8 million (U.S.\$193.5 million), ₱8,042.1 million and ₱8,407.7 million for the six months ended June 30, 2021 and for the years ended December 31, 2020, 2019 and 2018, respectively.

## HISTORY AND CORPORATE STRUCTURE OF SGP

### SGP prior to the Share Swap Transaction

The Issuer was originally a mining corporation and registered with the Philippine SEC on June 1, 1970 under the name “Mankayan Minerals Development Company, Inc.” On February 22, 1994, the Philippine SEC approved the Issuer’s change of corporate name to “UEM Development Phils., Inc.”, and the change of 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. In October 2010, Mr. Henry T. Sy, Jr. acquired 47.04% of the outstanding shares of the Issuer following a private sale and purchase of shares with the major shareholders of the Issuer entity, including East Fleming Holdings Corp., Great Epoch Group Holding Corp., and Threshold Corporation, and through a tender offer to the remaining shareholders of the Issuer.

On November 5 and 9, and December 14, 2010, the Board of Directors considered and approved the Amendment of the Articles of Incorporation and By-Laws of SGP for the purpose of, among others, (i) increasing the Issuer’s authorized capital stock, (ii) changing the Issuer’s corporate name to “Synergy Grid & Development Phils., Inc.”, (iii) changing its primary purpose to enable it to engage in power, energy, utilities, infrastructure and allied businesses (including investing in such entities), and (iv) expanding the secondary purpose of the Issuer.

In addition to its primary purpose, SGP is authorized to:

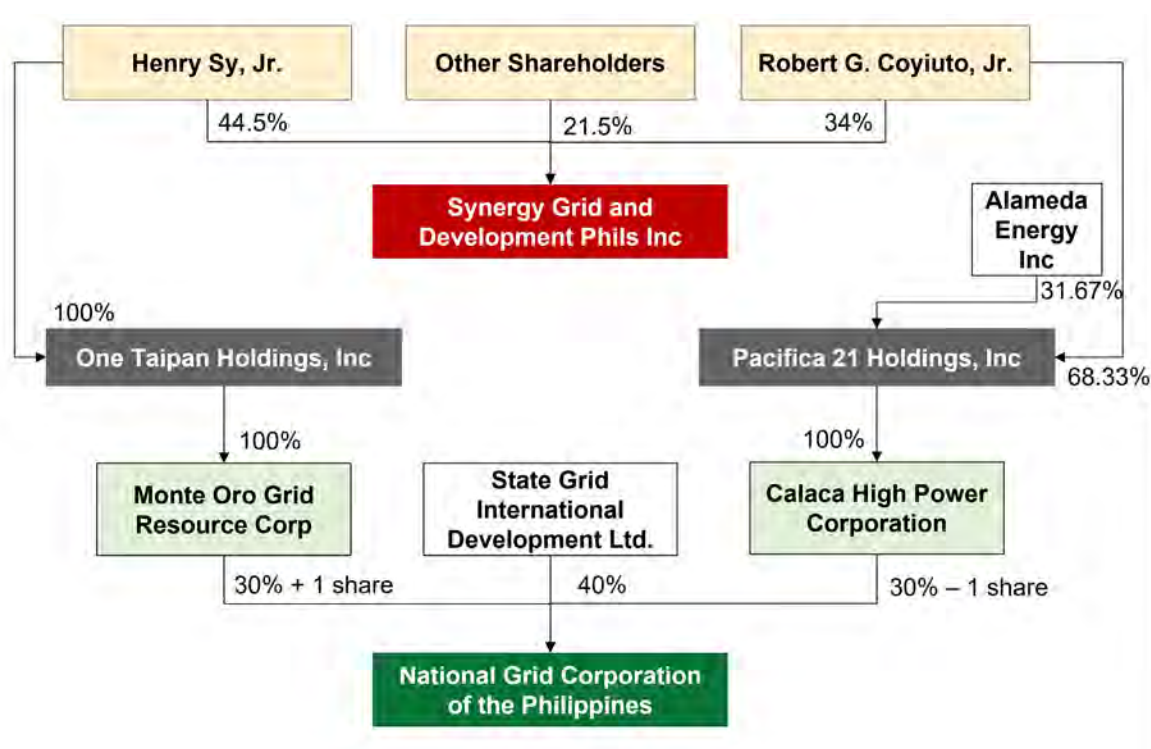
- engage in the business of investing in, purchasing or acquiring, and selling or disposing of the shares of stock, bonds, evidences of indebtedness and other securities issued or created by corporations and other entities engaged in power, energy, utilities, infrastructure and other allied businesses;
- acquire, lease, hold, occupy, use, mortgage real and personal properties;
- obtain financing from local and international funding sources or otherwise raise capital and funds by issuing or creating equity and debt securities; and

- 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 Issuer’s stockholders approved the amendments to its Articles of Incorporation and By-Laws in December 2010. This increase in the authorized capital stock paved the way for a share swap transaction involving the transfer of all of Mr. Sy’s shares in OneTaipan and Mr. Robert G. Coyiuto Jr.’s 67% shares in Pacifica21, in exchange for newly issued shares of the Issuer. The transaction was intended to be a tax-free exchange under Section 40(c)(2) of the National Internal Revenue Code of the Philippines, as amended. In August 2012, the Bureau of Internal Revenue (“BIR”) only partially granted the parties’ application for a tax-free exchange ruling by approving the same with respect to the swap of Mr. Sy’s OneTaipan shares with SGP and denying the same tax benefit for the swap of Mr. Coyiuto’s Pacifica21 shares. The parties appealed the BIR ruling, but after several years that the appeal was pending, they decided to rescind the share swap and applied with the Philippine SEC for the cancellation of SGP’s increase of authorized capital stock. The Philippine SEC granted such application in October 2016.

On October 28, 2019, Robert G. Coyiuto, Jr. acquired 34% of the issued shares of SGP through a private sale with East Fleming Holdings Corp.

The diagram below illustrates the Group’s corporate structure immediately before the implementation of the Share Swap.



Prior to the Share Swap Transaction and resulting consolidation as described below, SGP’s revenue was derived from management fees and interest from savings.

On January 1, 2015, SGP entered into a Shared Services Agreement with Monte Oro and Calaca to render monthly management consulting and financial advisory services and, in consideration of the services rendered, initially, SGP received a monthly management fee of ₱300,000 from each entity.

On March 22, 2017, the Shared Services Agreement was amended to extend the period up to December 31, 2018.

On February 26, 2018, the Shared Services Agreement was further amended extending the period up to December 31, 2021. This was superseded by a Revised Shared Services Agreement entered into by the SGP on January 1, 2019, increasing the monthly management fee to ₱500,000 with a term of three years commencing January 1, 2019, unless otherwise cancelled or extended by mutual agreement of the related parties and SGP.

## The Share Swap Transaction

On November 14, 2019, the Board of Directors of SGP resolved and approved that, upon approval by the Philippine SEC of its increase in authorized capital stock, 4,100,400,000 common shares of the Issuer, which will be created and issued out of such increase in authorized capital stock, will be issued at a price of ₱20.00 per share in exchange for 67% the outstanding shares of each of OneTaipan and Pacifica21 (the “**Share Swap**”).

The Board of Directors also approved the execution of any and all agreements and documents as may be necessary in connection with the Share Swap, and designated the officers and other persons authorized to sign for and on behalf of the Issuer.

During the annual stockholders’ meeting held on December 20, 2019, the stockholders approved the Share Swap and the additional listing with the PSE of shares issued in connection with the Share Swap. Since the Share Swap will involve related parties and the additional listing of shares are subject to the conduct of a rights or public offering, at least a majority of the minority stockholders approved the waiver of the conduct of rights and public offering. In the same meeting, the stockholders approved the Issuer’s increase in authorized capital stock.

Mr. Sy, Mr. Coyiuto and the Issuer entered into a Deed of Exchange of Shares and Subscription Agreement (“**Deed**”) dated as of September 3, 2020<sup>3</sup> pursuant to which, the Share Swap or exchange of shares would become effective upon approval by the Philippine SEC of the increase in authorized capital stock of the Issuer. Under the Deed, the Mr. Sy and Mr. Coyiuto will exchange and transfer to the Issuer the following shares:

- Mr. Sy: 86,430,000 common shares in OneTaipan, which represent 67% of the total issued and outstanding capital stock of OneTaipan; and
- Mr. Coyiuto: 871,000,000 common shares in Pacifica21, which represent 67% of the total issued and outstanding capital stock of Pacifica21.

As consideration, the Issuer would issue to each of Mr. Sy and Mr. Coyiuto 2,050,200,000 common shares (or a total of 4,100,400,000 common shares), with a par value of ₱1.00 per share, at an issue price of ₱20.00 per share.

On March 26, 2020, the Philippine Competition Commission issued its clearance on the proposed Share Swap on the basis that it will not likely result in substantial lessening of competition in the Philippine market.

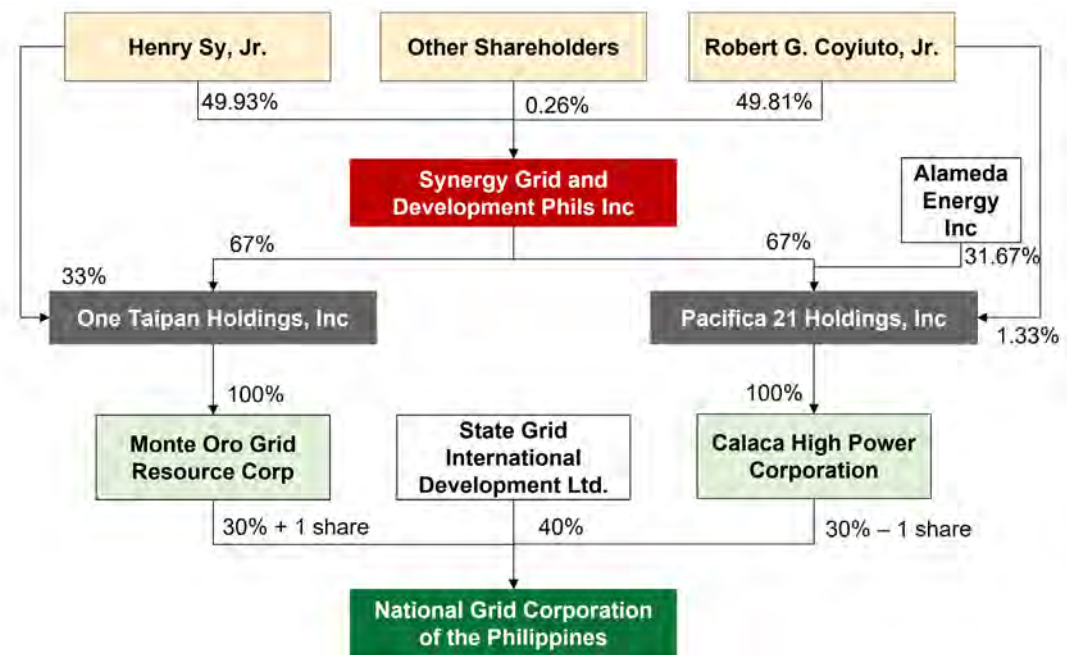
The Share Swap was completed on May 28, 2021, upon the approval by the Philippine SEC of the increase in the Issuer’s authorized capital stock. As a result thereof, the Issuer issued 2,050,200,000 common shares to each of Mr. Sy and Mr. Coyiuto.

After completion of the Share Swap, the Issuer became the beneficial owner of 67% of the outstanding shares of each of Pacifica21 and OneTaipan and the effective equity interest of SGP in NGCP, through OneTaipan and Pacifica21, is 40.2%. Mr. Sy and Mr. Coyiuto separately submitted in June 2021 applications with the BIR for certificates authorizing registration of the transfers of such shares to SGP. On August 6, 2021, the BIR issued a certification confirming that the transfers qualify as a tax-free exchange under Section 40(c)(2) of the National Internal Revenue Code of the Philippines, as amended. On August 12, 2021, the BIR issued a certificate authorizing registration of the transfer of the 67% Pacifica21 shares to the Issuer. On September 10, 2021, the BIR issued a certificate authorizing registration of the transfer of the 67% OneTaipan shares to the Issuer. The Issuer is thus registered as owner of 67% of the outstanding shares of Pacifica21 and OneTaipan in the respective books of these companies.

The diagram below illustrates the Group’s corporate structure after the implementation of the Share Swap.

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<sup>3</sup> The Deed was executed in counterparts by the parties. Mr. Sy signed on August 17, 2020, Mr. Coyiuto signed on August 17, 2020, and the Company’s authorized representatives signed on September 3, 2020.



Pacifica21 wholly owns Calaca, which in turn owns 30% minus one share in NGCP. OneTaipan wholly owns Monte Oro, which holds 30% plus one share in NGCP.

#### Subsidiaries of SGP

**OneTaipan Holdings, Inc.** OneTaipan is a domestic corporation registered with the Philippine SEC on February 23, 2010. It is a holding company whose 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 wherever situated and to the extent permitted by law. OneTaipan wholly owns Monte Oro Grid Resources Corporation.

**Pacifica21 Holdings, Inc.** Pacifica21 is a domestic corporation registered with the Philippine SEC on May 12, 2006 and is a holding company whose 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. Pacifica21 wholly owns Calaca High Power Corporation.

**Monte Oro Grid Resources Corporation.** Monte Oro is a domestic corporation incorporated in the Philippines on August 29, 2006 and is primarily engaged in investing and holding interests in shares of stock of companies engaged or proposing to engage in mining, energy, and infrastructure projects. Monte Oro's only active investment is in NGCP, which holds the concession to manage, expand, operate, maintain and rehabilitate the nationwide transmission and sub-transmission systems throughout the Philippines. Monte Oro owns 30% plus one share of the outstanding capital stock of NGCP.

**Calaca High Power Corporation.** Calaca is primarily engaged 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. Calaca's only active investment is in NGCP, and it owns 30% minus one share of the outstanding capital stock of NGCP.

**National Grid Corporation of the Philippines.** See "Description of NGCP and the Business of NGCP."

#### Dividend Policies

On August 10, 2021, SGP's Board of Directors passed a resolution setting out the Issuer's dividend policy, pursuant to which stockholders will be entitled to receive, upon declaration by the Board of Directors and subject to the availability of unrestricted retained earnings and settlement of operational expenses and other relevant taxes, costs and expenses required to be paid by SGP in the ordinary course of business, and subject to any financing

covenants, if applicable, dividends equivalent to up to 100% of the prior year's net income after tax based on the Issuer's audited financial statements as of such year.

On August 10, 2021, the board of directors of each of OneTaipan, Monte Oro, Pacifica21 and Calaca adopted similar resolutions on the declaration of dividends, which provide that stockholders are entitled to up to 100% of the prior year's net income after tax based on such company's audited financial statements as of such year, subject to the availability of unrestricted retained earnings and settlement of operational expenses and other relevant taxes, cost and expense required to be paid in the ordinary course of business, and subject to any financing covenants, if applicable.

On September 16, 2021, the board of directors of NGCP passed a resolution establishing its dividend policy. Under such policy, any declaration of dividends must be aligned with the objective of maintaining a level of capitalization that is commercially sound and must ensure that NGCP can sustainably operate while creating value for its shareholders. As such, NGCP will work towards maximizing dividends within the framework of the policy. Its board of directors shall approve the declaration of cash dividends out of its unrestricted retained earnings subject to the following conditions:

- (i) Compliance with the pertinent provisions of the Concession Agreement on dividends. The Concession Agreement provides that NGCP can declare dividends (even without PSALM's consent), if (a) there is no occurrence or continuation of a Concessionaire's Default<sup>[1]</sup> or an event that might become a Concessionaire's Default with the lapse of time or the giving of notice or both; and (b) there is no Deferred Payments that remain unpaid or, even if some Deferred Payments are unpaid, the required Financial Tests<sup>[2]</sup> are met as at the date any dividend is declared or paid. If any of the above conditions is not met, NGCP can declare dividends only with the prior written consent of PSALM. Under the Concession Agreement, "Financial Tests" means that, as of the date a dividend is declared or as of the date a dividend or remittance on account of shareholder loans or advances is made (the "relevant date"), (1) no installment of the Deferred Payments or other Indebtedness shall be in arrears, and (2) the Debt Service Coverage Ratio as at the relevant date is not less than 1.15.
- (ii) Compliance with applicable covenants under any loan agreements with banks and financial institutions, whether local or foreign;
- (iii) Compliance with the provisions of the Revised Corporation Code on dividend declaration and applicable issuance of the Philippine SEC; and
- (iv) Any dividend declaration shall also be subject to and consider, among others (a) capital expenditure requirements and settlement of operational expenses; (b) legal and regulatory requirements that determine cash flows available for capital expenditure, operational requirements and dividends; and (c) market and financial conditions and other contingencies that may affect the Corporation's cash flows and funding requirements.

See "*Dividends and Dividend Policy—Dividend Policies.*"

### **The Minimum Public Ownership Requirement**

The Share Swap was undertaken to formally consolidate Mr. Sy's and Mr. Coyiuto's ownership and control of NGCP through a common corporate structure. Following the completion of the Share Swap, SGP's public ownership was reduced to 0.26%. In addition, as a result of the Share Swap, the applicable minimum public ownership ("**MPO**") requirement to SGP became 20% of its total issued and outstanding Common Shares. Under the MPO rule of the PSE, a listed company which becomes non-compliant with the MPO requirement on or after

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<sup>[1]</sup> Section 13.01 of the Concession Agreement provides for the following events of default by NGCP: (a) revocation of congressional franchise or other authority to operate; (b) cessation of eligibility to hold a congressional franchise or other authority to operate a public utility; (c) occurrence of a change in control without PSALM's written consent or breach of equity retention; (d) default in making timely payment of any amount payable of the concession fee; (e) material default in the observance or performance of any other covenant; (f) declaration by any party or parties to any material indebtedness to be in default; (g) event of bankruptcy; (h) material misrepresentation or incorrect warranty; and (i) abandonment.

<sup>[2]</sup> Financial tests means that as of the date a dividend is declared or as of the date a dividend or remittance on account of shareholder loans or advances is made (the "relevant date"), (i) no installment of the Deferred Payments or other Indebtedness shall be in arrears, and (ii) the Debt Service Coverage Ratio as at the relevant date is not less than one decimal fifteen (1.15).

January 1, 2013 shall be suspended from trading for a period of not more than six months (“**Trading Suspension Period**”) and shall be delisted if it remains non-compliant after the Trading Suspension Period. See “*The Philippine Stock Market—Amended Rule on Minimum Public Ownership.*”

On May 24, 2021, SGP requested the PSE to grant it a grace period of 12 months (commencing from the date its public ownership falls below the required level or from May 28, 2021 within which to restore its required public share ownership. The PSE suspended the trading of SGP’s Common Shares effective on May 31, 2021 and denied the request on the ground that (a) the grace period under its Amended MPO Rule only refers to the extension of the six-month period within which a listed company may restore compliance with the MPO requirement prior to delisting, but does not allow extension of the period prior to imposition of a trading suspension; and (b) PSE cannot allow the continued trading of shares after a company falls below the MPO requirement, as it would result in an incongruous situation where shares listed and traded through the PSE are subject to capital gains tax and documentary stamp tax instead of stock transaction tax (which is the tax payable on transfer of shares through the PSE). On June 29, 2021, SGP appealed the denial on the basis that it was not requesting the lifting of the trading suspension and reiterated its request for a 12-month period to restore its MPO to the level required by PSE. On August 12, 2021, the PSE denied the appeal on the basis that granting the same is inconsistent with, and would have the effect of extending, the period granted by the ERC in its Order promulgated on May 14, 2021 for NGCP to undertake an initial public offering as a mode of complying with the listing and public offering requirement under the Franchise. See “*Description of NGCP and the Business of NGCP—Legal Proceedings—ERC Petition to Extend Period for the Listing of the Shares*” on page 215. In any event, SGP intends to restore its public float and meet the MPO requirement before the lapse of the Trading Suspension Period, or on or before November 30, 2021, by undertaking this Offer. The issuance of the Offer Shares will make SGP compliant with PSE’s MPO requirement.

#### **Additional Increase in Authorized Capital Stock**

As of June 30, 2021, the total issued and outstanding capital stock of Synergy was 4,149,866,000 Common Shares. On June 30, 2021, Synergy’s Board of Directors approved an amendment to Synergy’s Articles of Incorporation to increase its authorized capital stock from ₱5,050,000,000 divided into 5,050,000,000 Common Shares to ₱5,300,000,000 divided into 5,300,000,000 Common Shares, representing an increase of ₱250,000,000 comprising 250,000,000 Common Shares (the “**Capital Increase**”). On August 10, 2021, the stockholders of Synergy approved the amendments for the Capital Increase. To support the Capital Increase, the Principal Shareholders each subscribed to 31,250,000 Common Shares. On August 25, 2021, the Philippine SEC approved the Capital Increase. As a result and as of the date of this Prospectus, the total issued and outstanding capital stock of Synergy is 4,212,366,000 Common Shares.

#### **EMPLOYEES**

SGP currently has five employees, which includes the Financial Comptroller. In addition, the Issuer has hired a Risk and Audit Officer who will join on September 1, 2021. The Issuer is in the process of reorganizing the Group (SGP and Intermediate Holding Companies) wherein the existing top executives and consultants in Calaca and Monte Oro may be absorbed as employees of SGP. Following the approval of the Share Swap, SGP plans to hire other employees as may be necessary in the next 12 months to meet its operational needs.

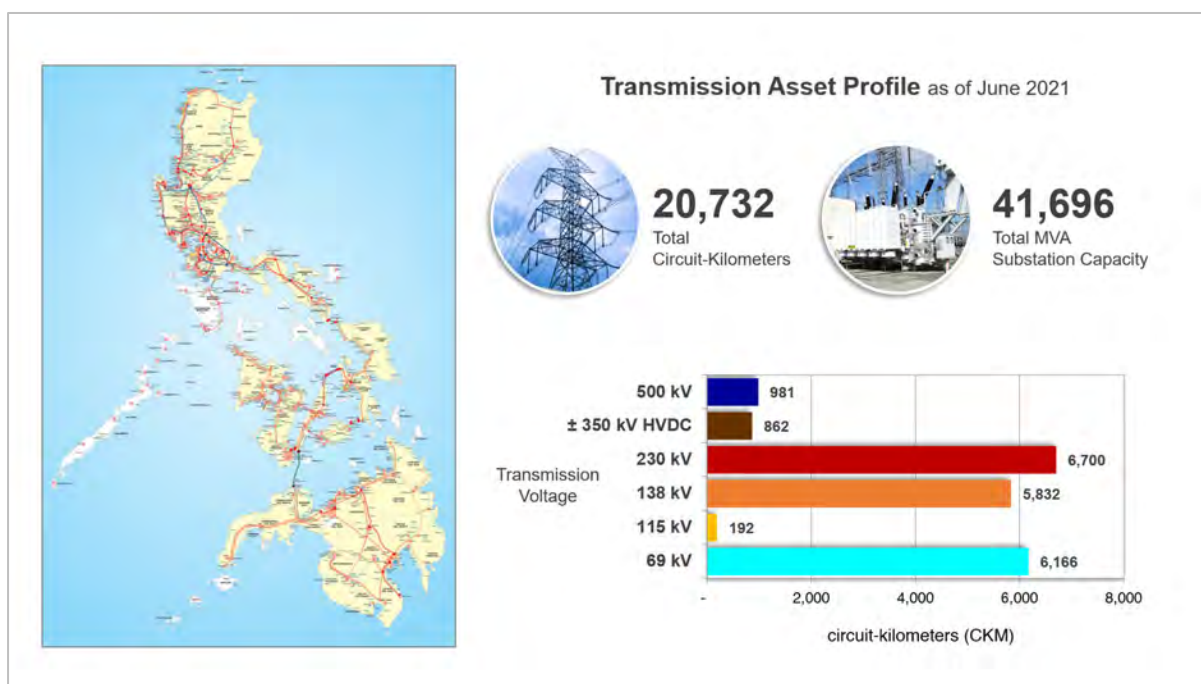
#### **LEGAL PROCEEDINGS**

As of the date of this Prospectus, to the knowledge and/or information of the Issuer, SGP and the Intermediate Holding Companies are not presently, or during the last five years, involved in any legal proceedings. For a discussion on legal proceedings relating to NGCP, see “*Description of NGCP and the Business of NGCP—Legal Proceedings.*”

## DESCRIPTION OF NGCP AND THE BUSINESS OF NGCP

NGCP is the sole and exclusive operator of the Philippines’ nationwide transmission network linking power generators and distribution utilities to deliver electricity to end-users across Luzon, Visayas and Mindanao. NGCP is a privately-owned corporation responsible for operating, maintaining and developing the power transmission grid, an interconnected system of towers, substations, lines and other high voltage equipment (the “**Grid**”), that transmits gigawatts of power from where it is produced to where it is consumed.

As of June 30, 2021, NGCP’s power transmission network had a total length of over 20,732 CKM, with 41,696 MVA substation capacity and 20,000 transmission towers operating in 67 provinces. NGCP’s transmission superhighway of high-voltage transmission facilities range from 500kV, 230kV, 138kV, 115kV and 69kV lines interconnected through 145 substations. The Company is also undertaking six island interconnection projects to connect major sub-grids with one another as of the date of this Prospectus. These island interconnection projects with currently expected completion dates from March 2022 to February 2026 are as follows: (i) Mindanao-Visayas Interconnection Project; (ii) Panay-Guimaras 138kV Interconnection Project; (iii) Negros-Panay Interconnection Project, Line 2; (iv) Cebu-Bohol 230kV Interconnection Project; (v) Batangas-Mindoro Interconnection Project (in conjunction with the Palawan-Mindoro Interconnection Project (presently at feasibility study stage) – Feb 2028); and (vi) Quezon-Marinduque Interconnection Project. As of June 30, 2021, NGCP had a stable customer base of approximately 400 customers comprising Generator Customers (i.e., power generation companies which are connected to the NGCP system and authorized by the ERC to operate facilities used in the generation of electricity) and Load Customers (e.g., distribution utilities, electric cooperatives, directly-connected industries and other entities that receive supply and delivery of electricity for their own use or for distribution purposes). See “—Customers” on page 205 for further details on the distinction between Generator Customers and Load Customers.



NGCP operates its business in a highly regulated environment and all aspects of its operations, from project implementation to transmission charges and revenue structure, are subject to regulation by the Government, acting primarily through the ERC. Republic Act No. 9511 (the “**Franchise**”) granted NGCP a 50-year franchise to operate and maintain the Grid and related facilities, authority to engage in ancillary business and any related business which maximizes the utilization of its assets and the right of eminent domain necessary to construct, expand, maintain and operate the Grid. NGCP intends to apply for the renewal of the franchise at the appropriate time. For further discussion on the power sector and the generation, transmission and distribution of power, see “—Overview of Regulatory Framework” on page 187.

## Vision and Purpose of NGCP

The mission of NGCP is to contribute to the nation’s social and economic development and address the needs of its stakeholders by efficiently developing and adequately operating the Grid to provide reliable electricity transmission services in the Philippines. Since taking over the operations of the Grid from the National Transmission Corporation (“**TRANSCO**”) in 2009, NGCP has completed the construction of 3,375 CKM of new transmission lines, increased substation capacity by an aggregate of 21,209 MVA and completed capacitor and reactor installations with an aggregate of 2,855 MVAR across Luzon, Visayas and Mindanao.

## History of NGCP

In 2001, Republic Act No. 9136, the Electric Power Industry Reform Act (“**EPIRA**”) was passed into law. The EPIRA was implemented to achieve reliable and competitively priced electricity in the Philippines and introduced two major reforms: (i) the restructuring of the electricity supply industry, and (ii) the privatization of the government-owned National Power Corporation (“**NPC**”). Restructuring called for the separation of the different components of the power sector: generation, transmission, distribution, and supply. Electricity rates were unbundled to allow consumers to see each individual component of the electricity service they are paying for. Generation was privatized through the sale of generation assets and transmission was spun off to the government-owned TRANSCO in 2001, in preparation for its eventual privatization via concession.

In 2007, the consortium of Monte Oro, Calaca, and the State Grid Corporation of China (“**SGCC**”) as technical partner, won the bid for a 25-year concession to operate the country’s power transmission network. Monte Oro, Calaca and SGCC incorporated NGCP on February 21, 2008. Subsequently, on February 28, 2008, NGCP entered into a concession agreement (the “**Concession Agreement**”) with the Power Sector Assets and Liabilities Management Corporation (“**PSALM**”) and TRANSCO, granting the Company the right to take over and operate TRANSCO’s transmission business for a 25-year period commencing on January 15, 2009 (after NGCP obtained the Franchise), renewable for another 25-year term.

On December 1, 2008, the Philippine Congress enacted Republic Act No. 9511, granting NGCP a 50-year franchise (the “**Franchise**”) to operate and maintain the Grid and related facilities, authority to engage in ancillary business and any related business which maximizes the utilization of its assets (e.g. telecommunications system) and the right of eminent domain necessary to construct, expand, maintain and operate the Grid. Under the Franchise, NGCP is exempt from income tax and pays a 3% franchise tax on all gross receipts instead. During the 2018 TRAIN law implementation, NGCP became a VAT-registered taxpayer in addition to paying the 3% franchise tax. As a tax withholding agent, NGCP withholds final, expanded and compensation taxes. Furthermore, the Franchise required NGCP to conduct a public offering for its shares representing at least 20% of its outstanding capital stock within 10 years from commencing operations. See “*Regulatory and Environmental Matters— Republic Act No. 9511, Franchise of NGCP.*”

The table below sets out key milestones of NGCP:

<b>Preparation of New Regulatory Framework</b>	
2001	<ul style="list-style-type: none"><li>• The Electric Power Industry Reform Act (EPIRA) was passed into law</li></ul>
2007	<ul style="list-style-type: none"><li>• The consortium of Monte Oro, Calaca and SGCC won the bid as the Concessionaire for power transmission operations</li></ul>
2008	<ul style="list-style-type: none"><li>• NGCP incorporated</li><li>• Execution of Concession Agreement</li><li>• Congress granted NGCP its 25-year Franchise</li></ul>
<b>Commencement of Operation and Major Projects</b>	
2009	<ul style="list-style-type: none"><li>• NGCP commenced operations</li></ul>
2012	<ul style="list-style-type: none"><li>• Upgraded the National Control Center</li><li>• Established the Overall Command Center</li></ul>
2014	<ul style="list-style-type: none"><li>• Completed the Bohol Backbone Transmission Project</li></ul>

- 2016 • Completed the submarine cable portion of the Cebu-Negros-Panay interconnection project
- 2018 • Installed Luzon-Visayas fiber optic backbone
  - Awarded Employer of the Year from the People Management Association of the Philippines (PMAP)
- 2019 • Commenced the Mindanao-Visayas Interconnection Project
  - Earned ISMS Certification for System Operations
- 2020 • Secured reliability of transmission services in Northeastern Mindanao
  - Completed the Mindanao 230 kV Transmission Backbone

## Corporate Structure

The chart below sets out NGCP's immediate shareholders as of the date of this Prospectus.



*Note: The SGCC is the second largest state-owned enterprise (and largest electric power provider) in China.*

## IMPACT OF COVID-19

COVID-19, an infectious disease that was first reported to have been transmitted to humans in late 2019, was declared a pandemic in March 2020 and has spread globally over the course of 2020, and continues to persist through 2021 having taken on various mutations that are sometimes more transmissible and resistant to available vaccines. As of the date of this Prospectus and since the beginning of the pandemic, there have been over 200 million confirmed cases worldwide and over 1.6 million confirmed cases in the Philippines. In response, countries have taken measures in varying degrees to contain the spread, including social distancing measures, lockdown, community quarantine, travel restrictions and suspension of operations of non-essential businesses, among others.

The Government issued a series of directives and social distancing measures as part of its efforts to contain the outbreak in the Philippines. On March 16, 2020, Presidential Proclamation No. 929 was issued, declaring a State of Calamity throughout the Philippines for a period of six months and an enhanced community quarantine (“ECQ”) was imposed on the island of Luzon, including Metro Manila. Initially, the ECQ was set to end by April 12, 2020 but was subsequently extended for two-week periods until May 15, 2020 (the period from March 16, 2020 through May 15, 2020, the “**Initial ECQ Period**”). Under the ECQ guidelines, restrictions on movement outside of the residence were implemented (ranging from stay-at-home orders to total lockdowns), mass transport facilities were suspended, schools were closed and alternative work arrangements were implemented. The COVID-19 pandemic affected most daily activities and forced many businesses to suspend operations or shut

down for the duration of the ECQ. Only essential businesses such as plants involved in manufacturing and processing basic food products, medicine, medical devices/equipment and essential products, and delivery services transporting food, medicine and essential goods, as well as essential sectors such as power and water utilities were allowed to operate, subject to certain conditions and limitations on operating capacity.

Since the time of the Initial ECQ Period, community quarantines with different levels of restrictions and permitted activities have been implemented across the Philippines by the relevant local governments. These include modified ECQ (“**MECQ**”), general community quarantine (“**GCQ**”) or modified GCQ (“**MGCQ**”). The graduated lockdown schemes from ECQ, MECQ, GCQ, and MGCQ impose varying degrees of restrictions on travel and business operations. The Government continues to calibrate the imposition of lockdown or community quarantine measures across the country depending on the situation in specific localities.

Following the Initial ECQ Period, the day-to-day operations of NGCP, were not significantly affected by the ECQ or other graduated quarantine measures because the Company’s operations, being essential services, are permitted to continue regardless of the community quarantines scheme in place.

Nevertheless, because the community quarantines significantly limited operations of various industries, particularly during the Initial ECQ Period, there was an equally significant decline in demand from customers in April 2020. See “*Management’s Discussion and Analysis of Financial Condition and Results of Operations*” for further information on the historical impact of COVID-19 on the Group’s results of operations, including the impact of ERC advisories on deferred payment of power bills and requests from industrial customers to shift from firm to non-firm commitments to obtain financial relief, among others. Since June 2020, the Company’s collection efficiency started to normalize with few outstanding balances remaining as customers requested payment extensions due to financial and operational difficulties brought about by the pandemic. As of June 30, 2021, there were no outstanding amounts receivable from customers who sought payment extensions or otherwise availed of the Government-mandated extended payment program for transmission charges for certain billing periods in 2020.

As of the date of this Prospectus, NGCP’s continues its full operations. Non-essential workforce and those employees under the “most at risk” population are working from home. The Company’s primary concern in relation to its operations is the imposition of the various local government quarantine measures, which have affected the timelines of ongoing and planned construction of critical transmission projects and the rollout of its CAPEX program due to border/entry restrictions and requirements, which slow down employee and contractor mobility and require it to incur additional expenses. In addition, the mandatory closure of certain areas with reported COVID-19 cases where its facilities may be located also affects continuity of operations. Starting September 16, 2021, the new Alert Level and Granular Lockdown System will be piloted in Metro Manila. Under this new system, varying mobility restrictions are imposed depending on the Alert Levels, with the local government unit having authority to impose granular lockdowns with respect to the areas under their jurisdiction.

As of the date of this Prospectus, Metro Manila is under Alert Level 4 until October 15, 2021, subject to further extensions to announced by the IATF.

### **Measures to Protect and Mitigate Spread of COVID-19**

NGCP has implemented various initiatives to protect the workplace, stakeholders, facilities and communities and mitigate the spread of COVID-19. These include the following:

- Distribution and requirement for PPEs (face masks, face shields, hazmats if necessary)
- Alternative work arrangement
- COVID-19 Testing and Vaccination
- COVID-19 Hotline (Teleconsultation) and COVID-19 Mental Health Hotline (DOH), Psychological First Aid
- Meals and Accommodation for Isolated Employees/in Locked Down Facilities/LGU-Imposed Quarantine
- Paid Extended Emergency Leave for COVID-19 Patients and Employees taking Care of COVID-19 Patients
- HMO Coverage, Hazard Pay, Allowance
- Hospital Coordination
- Information Campaigns

NGCP has also identified isolation areas in its facilities and implemented internal contact tracing protocols and implemented alternative work arrangements in accordance with community quarantine restrictions, and health protocols consistent with the guidelines of the DOH and IATF, including health declarations prior to entry to any facility, temperature checking, limited workplace capacity, provision of PPEs and supplies for sanitation and disinfection of hands, vitamins and disinfection of facilities and vehicles, among others. NGCP has also conducted corporate-wide COVID-19 testing for employees and personnel of outsourced services, and provided point-to-point shuttle services. Currently, the Company is rolling out a COVID-19 vaccination program covering employees, dependents of employees, consultants, retainers and personnel of outsourced services. See "*Occupational and Health Standards*"; "*Disaster Recovery Plan and Business Continuity*."

## **STRENGTHS AND STRATEGIES**

### **Strengths**

The Group believes that the following are its key business strengths:

#### ***Sole power transmission operator in the Philippines***

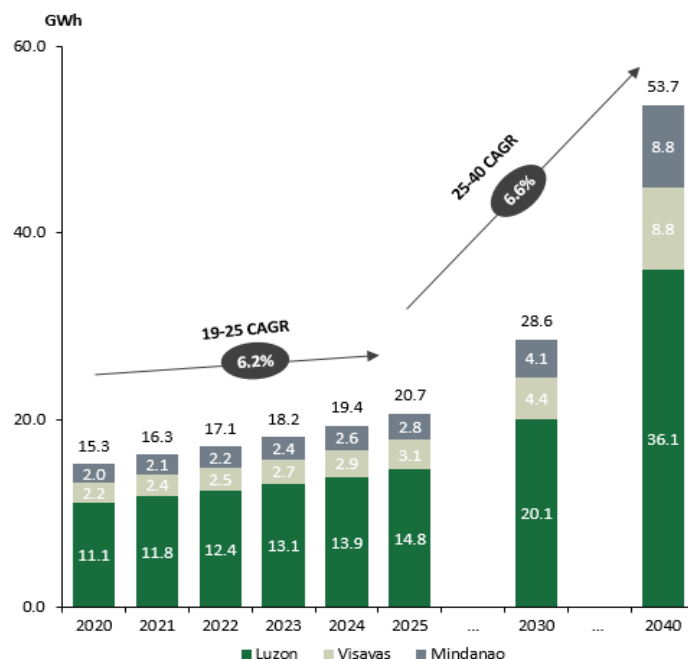
NGCP is a leading Southeast Asia transmission company and the exclusive operator of the transmission network in the Philippines. NGCP, through the listing of SGP in the PSE, is expected to be one of the very few listed transmission companies in the world, providing investors a rare opportunity to tap into the value of this industry. NGCP plays a critical role in the Philippine power sector, with an existing franchise across Luzon, Visayas and Mindanao, linking power generators and distribution utilities to deliver reliable electricity to end-users.

NGCP is the sole concessionaire of Government's transmission assets. The 25-year concession gives NGCP the rights to operate all the transmission and sub-transmission assets in the Philippines. The concession is extendable by another 25 years, subject to certain conditions, under an extension option valid until 2059. As of June 30, 2021, NGCP operates 20,732 CKM of transmission line and 41,696 MWA of substation capacity. In addition, as of June 30, 2021, NGCP has a stable customer base of approximately 400 customers across distribution utilities, electric cooperatives, directly-connected industries and other entities.

#### ***Operation in a sizable market with growth potential***

Energy consumption and economic development in the Philippines are highly interdependent. In the period from 2000 through to 2020, the annual average growth rate ("**AAGR**") of total electricity consumption was 4.0%, while the economy as a whole grew at an AAGR of 5.5% according to the Lantau Report. The median real GDP is forecasted to grow by 6.6% in 2022, driven by strong consumer demand, a vibrant labor market, notable service sector performance, and robust remittances as pre-COVID according to the Lantau Report. The Group believes that this will continue driving the demand in electricity.

With the growth of real GDP, the Philippines' demand for electricity is expected to increase as well. System peak demand in 2020 stood at 15.28 GW. The Group expects electricity demand to grow at an AAGR of 6.23% between 2021 and 2025, 6.73% for 2026 to 2030, and 6.49% for 2031 to 2040. The Group expects peak demand to almost double from a peak national demand of 15,282 MW in 2020, to reach 28,631 MW by 2030 and almost quadruple by 2040 reaching 53,569 MW. The chart below sets out peak demand forecast for through 2040.



Source: NGCP Transmission Development Plan 2021-2040, Consultation Draft

The Philippines ranks as the second most populous amongst countries in the Association of Southeast Asian Nations (“ASEAN”). It has an estimated population of 108.7 million in 2020. The Government estimates that the Philippines population is growing by approximately 1.5 million people every year. Population growth drives significant demand for electricity and transmission infrastructure, as discussed in the Lantau Report.

In 2019, the Philippine annual electricity usage per capita stood at 981 kWh and is expected to reach c. 1,220 kWh in 2025 according to the Lantau Report. When benchmarked against its peer countries, the Philippines’ 2019 per capita electricity usage is significantly lower than the average of members of the Organization for Economic Co-operation and Development (OECD) and other major ASEAN economies such as Singapore, Malaysia, Vietnam, and Thailand. According to the Lantau Report, the gap implies a potential improvement that serves as the driver for NGCP’s expansion as the Group believes there is strong future demand for transmission infrastructure to support the long-term electricity consumption growth.

### ***Strong cash flow visibility backed by stable regulated regime with performance rewards***

NGCP operates within an established regulatory framework and maintains appropriate engagement with the ERC. The ERC has implemented performance-based regulation (“PBR”), in which the regulator announces publicly ahead of time the fixed Maximum Annual Revenue (“MAR”). The MAR is estimated from the cost and capital expenditure program of NGCP, and is typically filed in October the previous year, while decisions will be made shortly after in December, allowing NGCP to have an advanced level of revenue visibility. See “—Overview of Regulatory Framework—Rate Setting and the Regulatory Reset Process.”

NGCP’s revenue for the electricity transmission business for a specific time period is determined by a revenue-setting process known as the regulatory reset process (“**Regulatory Reset Process**”). During the Regulatory Reset Process, the Transmission Provider (i.e., NGCP) sets out its proposed capital expenditure plans and revenues for the relevant periods for ERC’s approval. The Rules for Setting Transmission Wheeling Rates (“**RTWR**”) provides NGCP with the mechanism of MAR adjustment in the next regulatory year, if there is any revenue under-recovery in the current regulatory year, and thus removing volume risk. This provides the Group with the ability to forecast revenue and cash flow ahead of time.

Transmission charges are also linked to a performance-based regulatory framework that offers rewards for meeting certain regulatory standards. This performance based regulatory framework allows the Group to benefit from certainty of stable cash flow in the long term and also the rewards in the form of some uplift for outperformance as measured against clearly defined performance standards set by the ERC.

In addition, NGCP is a private run corporate and being a regulated entity, operates under defined procedures and protocols, which help shield it from potential political risks. NGCP also conducts regular dialogues with the regulators and receive guidance from them, enabling the Group to have a clearer view of its future cash flow projections.

Leveraging on this unique position as the sole and exclusive operator of the Grid, the Group believes that NGCP has achieved a superior financial profile historically, with return-on-assets at 7.0% and EBITDA margin at 81.6% in 2020.

NGCP's 2018 – 2020 financial performance is shown in the table below:

	<b>As of December 31,</b>		
	<b>2018</b>	<b>2019</b>	<b>2020</b>
Return-on-assets <sup>(1)</sup>	8.0%	6.8%	7.0%
EBITDA margin <sup>(2)</sup>	79.7%	79.6%	81.6%

Notes: (1) Return-on-assets is calculated as Net Income / Total Assets.

(2) EBITDA as adjusted for non-recurring COVID-19 donation expense.

### ***Strong performance backed by top technical and operational capabilities***

The network performance of NGCP as measured by availability and reliability indices, such as frequency of tripping and system availability, among others, has significantly improved and stabilized over time across all Luzon, Visayas and Mindanao, compared with the period under the management of TRANSCO.

Among the key indicators in which NGCP continues to outperform is the Frequency of Tripping (“**FOT**”) which measures the number of times high-voltage transmission lines tripped or experienced forced outages for every 100 CKM. NGCP's 2020 performance shows a significant decrease in tripping incidents across all the three Main Grids. In Luzon, the number has gone down from 3.985 in 2008 (before NGCP took over the operations of Grid) to 0.932 in 2020, marking a 76.6% decrease in tripping incidents. Visayas also recorded a decrease of 92.6% from 4.542 to 0.335. Similarly, Mindanao's numbers went from 7.951 to 0.504, a decrease of 93.6%. These improvements are attributable to NGCP's upgrading projects such as wood pole replacement, substation additions, capacitor bank projects, and new transmission lines, effectively reinforcing the stability and reliability of the Grid in any condition.

NGCP also improved the capability of the Grid to mitigate the impact of power interruptions to overall Grid operations, which are measured by the System Availability (“**SA**”) indicator and System Interruption Severity Index (“**SISI**”). In 2020, Luzon's SA scored 99.208%, Visayas at 99.764%, and Mindanao at 99.736%. For the SISI, Luzon only recorded 0.869 system minutes of interruptions in 2020 compared to 9.537 in 2008 (when the Grid was still under the control of TRANSCO); 10.010 from 83.559 in Visayas; and 9.124 from 10.434 in Mindanao.

All three Main Grids have significantly reduced, if not completely eliminated, violations on frequency and voltage limits. The Luzon Grid in particular reported 100%, or no violations in frequency limit compliance (FLC) since 2010. FLC refers to the percentage of time where the system frequency is within the allowable range of  $60 \pm 0.3$  Hertz, which is the optimal operating frequency of the transmission system.

In order to ensure high rates of availability for its transmission systems, NGCP operates and monitors its infrastructure using modern techniques and technologies such as SCADA EMS (with back-up system) which enables monitoring of real-time condition of the power system. Other key technologies used in the operation of the Grid include the optical telecommunication network, Protection Management Systems, Network Management System, and Integrated Energy Model Simulation Software.

In addition, NGCP has collaborated closely with its technical partner, SGCC on engineering design and construction, which enables NGCP to enhance its own design, construction and workmanship standards that are now being used in the implementation of projects. Further, NGCP conducts site visits and technical exchange with SGCC on various subjects such as smart grid, power system protection, and grid operations which allow NGCP to keep in pace on latest technology applicable to Philippine grid setting and improve the grid operation. NGCP also collaborated in research and technical studies for HVDC technologies and other high-voltage equipment, LIDAR applications, and renewable energy integration to the Grid.

### ***Established track record of project development and execution***

NGCP has extensive experience and expertise in implementing new transmission projects and expanding the Philippine's transmission systems. From 2009 to 2020, NGCP has added 3,375 CKM of transmission lines and 21,209 MVA of sub-stations capacity across the Philippines, representing a significant CAGR of 12.0% and 21.3% respectively for the period that it became operator of the Grid. The Group believes that one example of NGCP's outstanding execution capability is the Mindanao-Visayas Interconnection Project, where NGCP targets to establish two cable terminal stations, two converter stations and 712 CKM of transmission lines in total, aimed at building ONE Grid Philippines. This project represents the first one issued with the Certificate of Energy Projects of National Significance ("CEPNS") by the DOE. The magnitude of this project further testifies to NGCP's exceptional capabilities in developing and executing significant projects.

Other significant milestones of NGCP's project development and execution include the energization of the ₱382 million project to improve Luzon power quality, which was completed in the last quarter of 2020, and the construction of 100km of overhead transmission lines connecting the Butuan Substation in Agusan del Norte to Placer Substation in Surigao del Norte. With this new line in place, cooperatives in Surigao del Norte and Surigao del Sur will benefit from improved voltage level, reduced transmission system losses, and the mitigation of power interruptions in the area.

NGCP's capabilities in this regard encompass all facets of transmission activities, from the conceptualizing to the commissioning of projects. NGCP contracts out the construction of its projects, subject to its supervision and quality control. NGCP believes that its experience and expertise in project implementation will serve it well as it undertakes a substantial expansion in the coming years in furtherance of the DOE's energy plan for the country.

### ***Skilled, experienced, and high performing management team***

NGCP's senior management team has significant industry experience and relationships in the power and related industries. Majority of its key executives, including the President, Head of Revenue and Regulatory Affairs and Chief Technical Officer, have been with NGCP for more than 12 years, and have in-depth knowledge about the power industry. Under their stewardship, NGCP has accomplished multiple key milestones, particularly in relation to the improvement of the overall performance of the transmission Grid.

Furthermore, NGCP's operational protocols are controlled by its senior management team with more than 20 years of experience in the electric power industry, spanning from the NPC to the NGCP. NGCP's team of Filipino engineers have a rich knowledge about the local operational and technical settings.

The capabilities of NGCP's management team have been demonstrated by its strong track record of operational excellence, and the Group believe that the expertise and experience of NGCP's senior management team will continue to lead it towards success in project execution and enable it to respond to market opportunities efficiently.

### **Strategies**

The vision of NGCP is to build the strongest power grid, strive to maintain the best-in-class power utility practice in Southeast Asia, with the collective efforts of a world-class professional work force. NGCP strives to contribute to the nation's social and economic development and satisfy its stakeholders' needs by efficiently developing and operating the Grid to provide reliable electricity transmission service. NGCP's strategies are grounded on improving robustness of expansion, efficiency of operation, compliance with regulations and collaboration with key stakeholders, financial discipline, as well as environment and social responsibility.

The primary elements of its business strategy are as follows:

#### ***Expand and strengthen NGCP's transmission network***

From the time that NGCP was awarded with the concession, it has delivered sizable growth in transmission line length and substation capacity. As of June 30, 2021, NGCP has a transmission line length of 20,732 CKM and substation capacity of 41,696 MVA. Between 2009 and 2020, NGCP achieved CAGR of 21.3% in substation capacity, and CAGR of 12.0% in transmission line length.

NGCP is devoted to develop a unified national grid and continuously implement new high-voltage transmission backbone to expand the network and accommodate the needed generation capacity additions. As contained in the Transmission Development Plan (TDP) 2021-2040, NGCP is tasked to implement the stage-by-stage grid looping

configurations for resiliency and reliability, implement additional submarine cable links between islands to allow power exchange, and implement new substations and capacity expansion of existing substations to ensure the adequacy and reliability of supply for the continuously increasing demand. NGCP is committed to continuously investing in the nationwide transmission network to drive future growth. As of 2011, NGCP’s regulatory asset base was ₱178 billion. From 2011 to 2020, NGCP’s capital expenditure investments amounted to approximately ₱209 billion. For the 13-year period between 2021 and 2033, NGCP has committed to invest approximately ₱440 billion in capital expenditures across 211 projects, of which ₱160 billion will be invested during 2021 to 2025. The Group expects that NGCP’s robust project pipeline and the Mindanao-Visayas Interconnection Project, which is a landmark project, to continue to expand its regulatory asset base.

#### List of Recent Pipeline of Grid Development



	Project Name	Estimated Completion
1	Bolo-Laoag 500 kV Backbone	2028
2	Nagsaag to Kabugao 500 kV Backbone	2035
3	Western Luzon 500 kV Backbone	2025
4	Metro Manila 500 kV Backbone Loop	2029
5	Batangas-Mindoro Interconnection	2026
6	Luzon-Visayas HVDC Bipolar Operation	2028
7	Luzon-Visayas 230 kV AC Interconnection Project	2040
8	Palawan-Mindoro Interconnection	2035
9	Mindoro-Panay 230 kV Interconnection Project	2040
10	Cebu-Negros-Panay 230 kV Backbone Stage 3	2022
11	Metro Cebu 230 kV Backbone Loop	2038
12	Cebu-Bohol-Leyte 230 kV Backbone	2035
13	Mindanao-Visayas Interconnection	2022
14	Southwestern Mindanao 230 kV Backbone	2040
15	Eastern Mindanao 230 kV Backbone	2036

#### Actively manage NGCP’s assets to improve operating performance and efficiency

The ERC has set NGCP’s targets in the PBR and Performance Incentive Scheme (“PIS”). ERC includes a PIS component in the RTWR that provides NGCP with an incentive to improve the quality of service provided to customers. NGCP follows strict maintenance procedures based on NGCP Operations and Maintenance Standards. These procedures ensure that NGCP meets and exceeds the targets set by ERC. NGCP believes that maintaining superior performance levels will further improve relationships with customers, the ERC and the Government, and enhance the regulatory treatment of its business.

In order to maintain NGCP’s strong network performance, NGCP undertakes significant measures to sustain its success in preventing major system failures from occurring across the transmission network. Based on the 3<sup>rd</sup> Regulatory Period Final Determination, NGCP is focused on the following key ERC-approved Performance Indices:

1. Frequency of Tripping (FOT): measures the number of forced transmission line outages (both transient and sustained) per 100 CKM initiated by the automatic tripping of protection relays
2. System Interruption Severity Index (SISI): is the sum of the total unsupplied energy of all delivery points in the system divided by the system peak load. Delivery Point refers to the point of supply where energy from the bulk system is transferred to the distribution system
3. System Availability (SA): refers to the availability of percentage of the system being considered to be on-line during the evaluation period
4. Frequency Limit Compliance (FLC): refers to the percentage of time during the reporting/rating period that the system frequency is within the allowable frequency range  $60 \pm 0.3\text{Hz}$

5. Voltage Limit Compliance (VLC): refers to the percentage of the number of voltage measurements during the evaluation period that the voltage variance did not exceed  $\pm 5\%$  of the nominal voltage of all buses identified
6. Congestion Availability (ConA): measures the availability of a subset of lines and transformers that will have potential severe impact on the operation of the electricity market
7. Ancillary Services Availability Index (ASAI): measures the availability of ancillary services on each of the three Main Grids
8. Customer Satisfaction Indicator (CSI): NGCP's performance on its CSI would be based on the responses to an annual survey of all generators, distribution utilities and directly connected customers that are connected to each of the three Main Grids

NGCP is committed to minimize tripping and system interruption, while maximizing system availability and frequency limit compliance. NGCP continue to focus on improving the quality of service and maintaining efficient operational costs by creating synergies and applying advanced technologies. NGCP implemented micro-processor-based substation control (MBSC), implemented upgrades of major equipment and upgrade of network protection and established emergency management command centers across the power grid. NGCP has realized considerable performance improvement since its takeover of the national transmission assets.

NGCP believes that its technical and engineering expertise, skilled workforce and its structured maintenance and operating procedures, enable it to achieve high network reliability and service quality. NGCP has been actively developing grid modernization strategies and investing in Smart Grid technology. NGCP has implemented the upgrade of Supervisory Control and Data Acquisition-Energy Management System (SCADA-EMS), installation of flexible AC transmission system (FACTS) for better system voltage control, installation of time synchronization devices, and transient fault recorders in major substations. These have significantly improved the observability and controllability including analysis of the Grid which is a complex power system. Moreover, NGCP's Smart Grid 2025 Roadmap will enable it to implement Cloud-Based SCADA, online monitoring of high voltage equipment and unmanned substation operations in various pilot areas through Central Control and Monitoring System (CCMS) and CCTV, advanced Enterprise Architecture and others by 2025. This will allow NGCP to achieve relevant ISO certification and further improve its operating performance and efficiency.

***Continue to comply with regulations and collaborate with key stakeholders***

As NGCP operates in a regulated sector in which its profitability is linked to the ERC MAR regime, correct execution of, and timely feedback on, the policy set by the regulators will be key to its vitality. NGCP is compliant with the EPIRA and Charter, and to continue collaboration with its key stakeholders in order to continue contributing to the country's vision to ensure sustainable, reliable, secured, sufficient, and affordable energy services to the Filipino people.

NGCP actively engages in proper decorum and regular communication with the regulatory departments, such as ERC and DOE, to share experience and expertise during the development/formulation of policies, and strives to strengthen its position in the country's power supply system. For example, NGCP serves as a guide for generation investors by identifying and recommending the ideal connection points for new power plants.

Sharing the same vision with the DOE and the government of Philippines, NGCP has also been fully supportive of the regulators' policy direction. NGCP plays an important role in supporting the country's thrust to establish sustainable and cleaner energy resources from indigenous renewable energy resources. NGCP has been part of the studies on Competitive Renewable Energy Zones (CREZ) that identified the areas with high quality RE resources, suitable topography and with strong developer interests. Accordingly, the transmission backbone projects needed to accommodate the RE plants are included in the Transmission Development Plan 2021-2040 and with some projects already filed with the ERC. With CREZ capacity for wind and solar plants reaching a total 34,646 MW across the country, NGCP's transmission projects are crucial in RE grid connections, power delivery to load centers and in driving the energy mix towards cleaner energy. From the year 2020 RE share of 21%, the DOE is targeting to increase the RE total share in the energy mix to 35% by 2030 and to 50% by 2040.

### ***Maintain and grow a profitable and low risk business and financial profile***

NGCP derives the majority of its revenues from regulated activities. In operating its core transmission business, NGCP seeks to preserve an efficient, conservative capital structure and intends to continue to invest in the core regulated business in order to maintain a stable, consistent and profitable business profile and enable the Group to finance capital expenditures and pay dividends.

NGCP management is determined to comply with strict financial investment criteria and maintain stable capital structure. Under prudent guidance of senior management and in line with the Concession Agreement, NGCP maintains a debt-to-equity ratio within 4:1 and debt-service coverage ratio above 1.15:1 and establish internal buffer that place it in robust financial position. Majority of its indebtedness is 10-year unsecured term loans with annual amortization and 30% balloon payment on maturity date. NGCP is confident that its strong cash flow generation could support the repayment of such loans and allow it to maintain a healthy indebtedness level, while enabling it to continue access to debt capital markets to finance capital expenditure requirements. NGCP discloses information on financial and operating performance in accordance with accounting standards as well as compliant with statutory and regulatory reporting requirements.

The Group's historical profitability is discussed under "*Management's Discussion and Analysis of Financial Condition and Results of Operations—Results of Operations*" beginning on page 100 in this Prospectus. NGCP has historically declared and paid dividends on a quarterly basis, subject to the availability of unrestricted retained earnings and settlement of operational expenses and other relevant taxes, cost and expense required to be paid in the ordinary course of business, and subject to any financing covenants, if applicable. See "*Dividends and Dividend Policy*" for further details on the dividend policies of the Group. NGCP ensures compliance with the financial covenants and provisions in the Concession Agreement relative to dividends.

### ***Commit to the highest standards of sustainable development and social responsibilities***

NGCP aims to hold its business operations to the highest standards of sustainable development and social responsibility. NGCP maintains a strategic focus on a low carbon business portfolio and climate change projects and strengthens its integrated business management through short- and medium-term economic-financial and socio-environmental key performance indicators and targets, as well as long-term strategic objectives aligned with the national and international commitments.

NGCP places significant importance on the environment, social development, and governance in the conduct of its business.

NGCP aims to minimize harm to the environment by planning, designing, constructing, operating, maintaining, and decommissioning power transmission and support facilities in an environmentally-responsible and sustainable manner. In line with its fundamental environmental principles of Impact Minimization, Compliance, and Conservation, NGCP is committed to the implementation of an Environmental Management System (EMS) compliant to ISO 14001 Standards that will serve as the platform for effective environmental management; conduct of environmental risk identification and assessment in any activity; compliance with existing environmental regulations, and the allocation of appropriate resources for the design and implementation of such programs, among others.

NGCP upholds its responsibility towards the host communities where its operations are located. To support this, NGCP has established three pillars or advocacy groups where CSR efforts are focused: community development, sustainable livelihood, and environmental stewardship.

Through community development programs, NGCP provides the structural needs of its partner communities, giving them conducive spaces and facilities such as health centers and multi-purpose covered courts, as well as conducting medical missions, disaster risk reduction trainings, and outreach activities. NGCP is also committed to promoting sustainable livelihood and has provided various means of support to partner communities through capacity-building activities. Environmental stewardship programs are also carried out to ensure the sustainability of operations.

In terms of good corporate governance, it is the policy of NGCP to establish and uphold the highest standards of ethical behaviors among its employees, management, and board. NGCP discourages situations or conditions that would result to, or create conflict of interest between NGCP and its employees, and shall require full disclosure of such to the management. All employees are enjoined to uphold the best interest of the Company.

NGCP's contribution in reducing CO<sub>2</sub> emissions is tied up with the implementation of transmission projects needed by renewable energy plants to support the country's target to reduce the dependence on fossil fuels. Through the CREZ process, the areas in the country with rich RE resources have been identified and NGCP will provide the needed transmission facilities. In addition, NGCP's interconnection projects for off-grid areas such as Mindoro, Marinduque and Catanduanes will provide access to cleaner energy resources from the main grid thereby eliminating the high dependence of the islands on diesel plants. The interconnection projects are also expected to encourage development of indigenous renewable energy resources in the islands as a result of wider market opportunity.

NGCP also serves a pivotal role in enabling renewable energy delivery in Philippines, through investing heavily in the renewable technology space – from 2011 to 2020, ₱56 billion has been invested by NGCP into transmission projects that benefited from the delivery of power from existing and new hydro, geothermal, wind and solar power plants. Ongoing projects that will benefit renewable energy plants include Binga-San Manuel and Ambuklao-Binga 230 kV Line, San Jose-Angat 115 kV Line, Cebu-Negros-Panay 230 kV Backbone Stage 3, Panay-Guimaras 138 kV Interconnection, and Agus 2 Switchyard Upgrading. In addition, the established Competitive Renewable Energy Zones (CREZ) in the country would benefit from additional transmission line projects such as the Northern Luzon 230 kV Loop, Nagsaag-Santiago 500 kV T/L, Bolo-Balaoan and Balaoan-Laoag 500 kV T/L Project.

## BUSINESS SERVICES

NGCP generates its revenues primarily from providing regulated transmission services for which customers are charged a fee based on the currently effective MAR set by the ERC. Regulated transmission services are (i) power delivery services; (ii) system operations services; and (iii) metering services. In addition, NGCP is permitted to provide certain excluded services which are not subject to MAR. Excluded services include (i) transmission connection services and (ii) the management of connection and residual sub-transmission assets. The Company is also engaged in related businesses to maximize the utilization of transmission assets. These include co-location services and rental activities.

The table below sets out the contribution of regulated services and excluded services to total revenues for the period presented.

	For the year ended December 31,				For the six months ended June 30,			
	2018	2019	2020		2020	2021		
	(in millions)				(in millions)			
	₱		U.S.\$		₱	U.S.\$		
<b>Regulated Services</b>								
Power Delivery Services.....	40,982.1	40,885.8	44,128.8	909.0	21,920.5	21,937.8	451.9	
System Operation Services*.....	2,681.4	2,774.3	2,740.7	56.5	1,399.6	1,380.7	28.4	
Metering Services....	170.8	179.5	182.1	3.8	89.3	94.0	1.9	
	43,834.3	43,839.6	47,051.6	20.0	23,409.4	23,412.5	482.2	
<b>Excluded Services .....</b>	1,567.7	1,556.9	1,555.0	32.0	773.7	773.7	15.9	
<b>Revenues.....</b>	45,402.0	45,396.5	48,606.6	1,001.3	24,183.1	24,186.2	498.2	

\*Excluding ancillary services. NGCP does not earn revenue in the contracting of ancillary services. Ancillary services costs are direct pass-through costs to customers benefitting from ancillary services.

## Regulated Transmission Services

### Power Delivery Services (Transmission Services)

Under Transmission Service Agreements entered into with its customers, NGCP provides transmission services and serves as the link between the generation and the distribution sectors of electric power industry, contributing to the delivery of electricity to end-users. NGCP serves Generator Customers (i.e., power generators) and Load

Customers (i.e., distribution utilities, electric cooperatives, industries (direct customers), private utilities, government utilities and the Government).

NGCP charges Generator Customers and Load Customers a Power Delivery Service monthly rate (₱/kW-month) for transmission services to recover the cost associated with conveying electricity to or from the connection point. The Generator Customer is billed for power delivery when it draws power from the Grid or when it reverts to Load status (i.e., when the Generator Customer draws power from the Grid, such as when the Generator Customer is not operating or when it requires feedback power). The charge is capacity-based and there is one rate charged per Grid, which varies per month depending on demand. The recoverable charge is subject to the MAR Cap.

### ***System Operation (Grid Management and Ancillary Services)***

As the System Operator of the Grid, NGCP balances the demand and supply of electricity to efficiently serve both Generator Customers and Load Customers. This entails the centralized operation and control of high-voltage transmission facilities, grid interconnections and ancillary services for the implementation of dispatch schedules provided by the Market Operator.

NGCP charges a monthly system operator charge (“**SO Charge**”) (₱/kW-month) to recover costs associated with system operations including (i) the costs of providing generation dispatch and operation and control services to ensure safety, power quality, stability, reliability and security of the Grid; (ii) communication and SCADA costs; (iii) the cost of managing ancillary services as specified in the relevant ancillary service procurement agreement (“**ASPA**”); and (iv) the costs of operations of the Grid Management Committee and its subcommittees. The charge is capacity-based and is fixed at ₱15.82/kW-month per the ERC Order as provided in the 2015 MAR under ERC Case No. 2014-155RC and the recoverable charge is subject to the MAR Cap.

### ***Ancillary Services***

Under the Franchise, NGCP is also authorized to engage in and process the procurement of ancillary services with Generator Customers in compliance with EPIRA, the Open Access Transmission Services Rules (the “**OATS Rules**”), the Philippine Grid Code (“**PGC**”) and the Ancillary Services Procurement Plan (“**ASPP**”). The type of ancillary or support services are regulating reserve, contingency reserve, dispatchable reserve, reactive power support, and black start capability, which are necessary to support the transmission capacity and energy that are essential in maintaining the power quality and reliability of the Grid.

Under ASPAs entered into with the ancillary services providers (“**AS Providers**”), NGCP provides the specific type of ancillary service required by the Grid. As of June 30, 2021, NGCP had 17 AS Providers in Luzon, 12 in Visayas, and 7 in Mindanao. The monthly cost of the ancillary services, translated into ₱/kW-month, is a pass-through charge and is recoverable from NGCP’s customers. It is computed based on the total cost of ancillary services provision billed by AS Providers per type, per grid (subject to necessary adjustments) and the total billing determinant of customers benefiting from the service. The pass-through computation for ancillary services provision is governed by the ERC-approved Ancillary Services Cost Recovery Mechanism.

### ***Metering Service***

NGCP is also engaged in the provision, operation and maintenance of metering facilities as the Wholesale Electricity Spot Market Metering Service Provider (“**WESM MSP**”). NGCP operates a comprehensive metering system at substations and direct customers delivery points. Under Metering Service Agreements entered into with its customers, NGCP provides metering facilities, equipment, and services provided under OATS Rules, PGC 2016 Edition, and WESM Rules to generator customers in compliance with EPIRA, OATS Rules, and the ASPP. As WESM MSP, the Company is responsible with ensuring that metering facilities are compliant with the requirements of the WESM Rules and Market Manuals to facilitate, among others, smooth interfacing of meter data collection.

The metering service provider charge applies to all connected transmission customers and varies depending on the voltage level of the infrastructure where a metering installation is in place. There are two types of metering service provider charge for which the Company recovers costs associated with metering services: (i) Metering Service Charge (“**MSC**”) and (ii) Metering Service Common Charge (“**MSCC**”). As part of the MSC, NGCP recovers the costs pertaining to the installed metering facilities at variable rates and as part of the MSCC, NGCP recovers costs associated with metering software, hardware and related costs to remotely obtain and access data from metering points at a uniform rate per metering point. As of the June 2021 billing period, the MSCC charge was ₱3,618.00 per metering point per month.

## **Excluded Services**

NGCP also generates revenues from Connection Charges (“CC”) and Residual Sub-transmission Charges (“RSTC”). These excluded services are not subject to the MAR Cap. As part of CC, NGCP recovers reasonable costs associated with connecting the transmission customer’s facilities to the transmission provider’s facilities. The CC rate is customer specific and payable by Generator Customers and Load Customers. RSTC are charges to recover the reasonable costs associated with sub-transmission assets that are not otherwise recovered through the CC. The RSTC charge is payable by Load Customers and by Generator Customers.

## **Related Businesses**

NGCP is also engaged in other related activities that maximize the utilization of transmission assets, such as co-location services (i.e., joint pole attachment, communication links, use of private access roads, relay stations and antenna attachments), and rental activities (i.e., lease of equipment, electrical facilities, office space and buildings).

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.

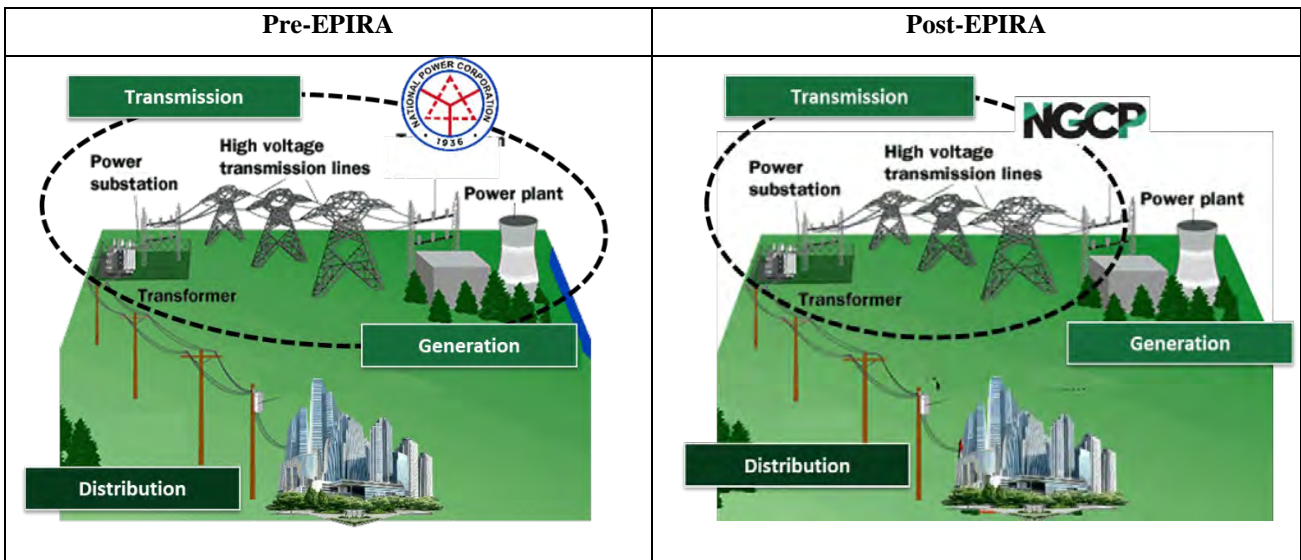
Section 1 of RA 9511 provides that NGCP may engage in any related business which maximizes utilization of assets provided that a portion of the net income derived from such undertaking utilizing assets which form part of the rate base shall be used to reduce transmission wheeling rates as determined 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.

## **OVERVIEW OF REGULATORY FRAMEWORK**

### **Power Industry Framework**

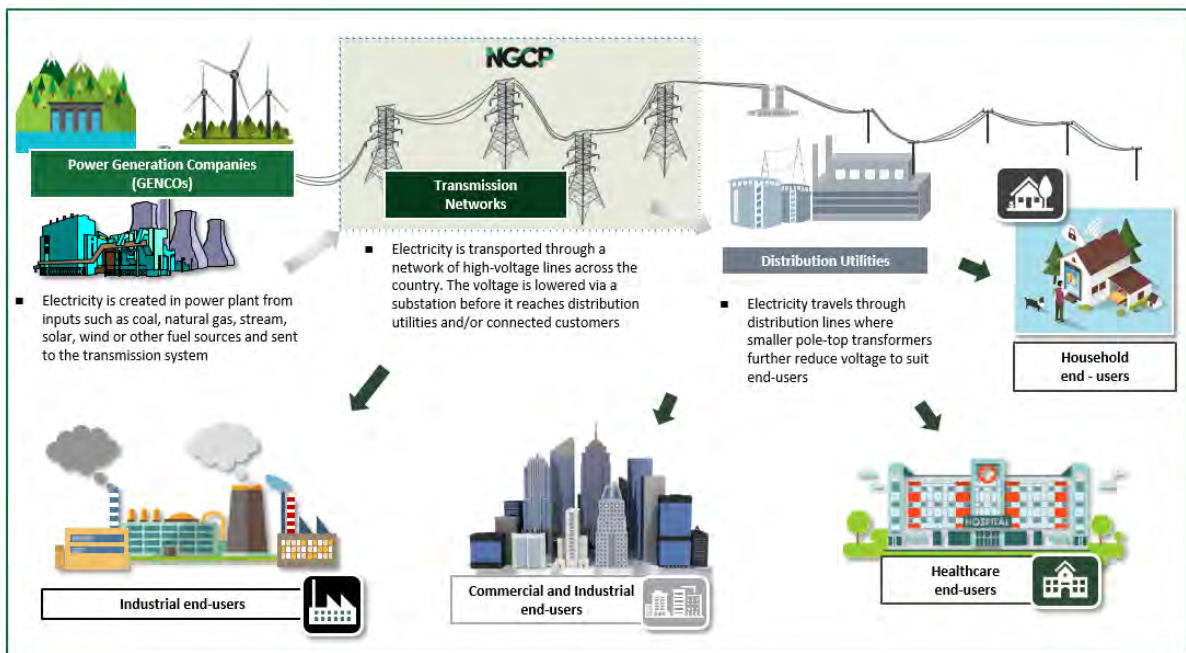
Through the EPIRA, the Government instituted major reforms with the goal of fully privatizing all aspects of the power industry. EPIRA established a framework for the organization, operation and restructuring of the power industry, with the industry divided into four sectors: (i) the generation sector; (ii) the transmission sector; (iii) the distribution sector; and (iv) the supply sector. The goal is for the generation and supply sectors to be fully competitive and open, while the transmission sector will be a regulated common electricity carrier business and the distribution sector will be a regulated common carrier business requiring a national franchise, thus both the transmission and distribution sectors would be regulated as public utilities. Prior to the EPIRA, the industry was regulated as a whole, with no clear distinctions between and among the various sectors and/or services. See “*Regulatory and Environmental Matters*” beginning on page 222 for further details.

The diagrams below illustrate the power industry framework before and after the implementation of EPIRA.



Historically, both the generation and transmission sectors were dominated by NPC. In 2001, NPC transferred its transmission and sub-transmission assets to TRANSCO as a result of EPIRA. Moreover, under EPIRA, PSALM would undertake the privatization of the assets and facilities of TRANSCO. In 2007, the award of the concession was made to NGCP.

In respect of the transmission sector, NGCP is the sole Transmission Network Provider and the System Operator. Electricity is produced by the power generators and flows into the high voltage transmission system then transformed into distribution level voltage for the consumption of the end-consumers. NGCP also serves as the System Operator to manage the supply and demand of the grid and act as Metering Service Provider for the Wholesale Electricity Spot Market. The diagram below sets out this flow of electricity.



### The Generation Sector

Generation of electric power is competitive and open to all qualified generation companies. It is not considered a public utility operation.

Upon implementation of retail competition and open access, the prices charged by a generation company for the supply of electricity shall not be subject to regulation by the ERC.

A new generation company shall, before it operates, secure from the ERC a certificate of compliance pursuant to the standards set forth under R.A. No. 9136 or the Electric Power Industry Reform Act of 2001 (EPIRA), as well as health, safety, and environmental clearances from the appropriate government agencies under existing laws.

### ***The Transmission Sector***

The transmission sector is responsible for the conveyance of electricity through the high voltage backbone system. Section 7 of the EPIRA states that the transmission of electric power is a regulated common electricity carrier business subject to the ratemaking powers of the ERC. NGCP, through its Concession Agreement with PSALM and TransCo, was given the nationwide franchise through Republic Act No. 9511 to operate and maintain the transmission system and the grid. It is the only entity comprising the transmission sector.

NGCP is responsible for the planning, construction, and centralized operation and maintenance of its high voltage transmission facilities, including grid interconnections and ancillary services.

### ***The Distribution Sector***

The distribution of electricity to end-users is a regulated common carrier business requiring a national franchise. Distribution of electric power to all end-users may be undertaken by private distribution utilities, cooperatives, local government units presently undertaking this function and other duly authorized entities, subject to regulation by the ERC.

A distribution utility shall have the obligation to provide distribution services and connections to its system for any end-user within its franchise area consistent with the Distribution Code. Any entity engaged therein shall provide open and non-discriminatory access to its distribution system to all users.

Any distribution utility shall be entitled to impose and collect distribution wheeling charges and connection fees from such end-users as approved by the ERC.

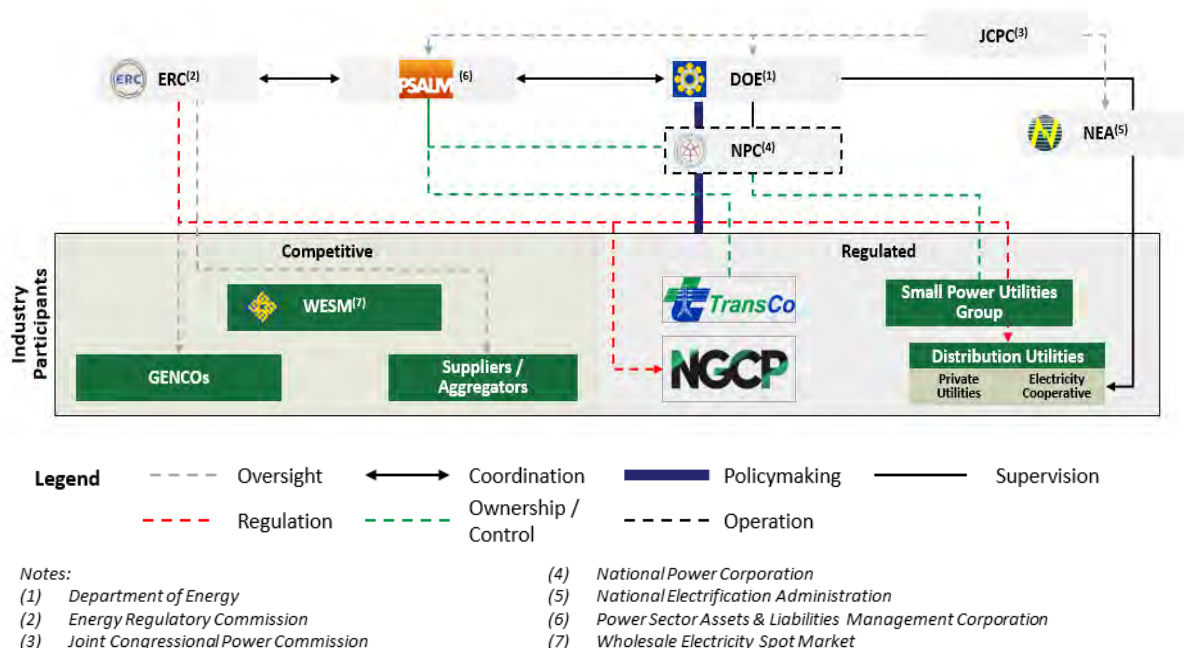
A distribution utility shall have the obligation to supply electricity in the least cost manner to its captive market, subject to the collection of retail rate duly approved by the ERC.

### ***The Supply Sector***

The supply sector is a business affected with public interest. Except for distribution utilities and electric cooperatives with respect to their existing franchise areas, all suppliers of electricity to the contestable market shall require a license from the ERC.

Electricity suppliers are subject to the rules and regulations concerning abuse of market power, cartelization, and other anti-competitive or discriminatory behavior to be promulgated by the ERC.

## Key Players in the Power Industry



NGCP operates in a highly regulated environment and all aspects of the Company’s operations, from project implementation to transmission charges and revenue structure are subject to regulation by the Government, acting primarily through the ERC and in coordination with the following key regulators: the Department of Energy (“DOE”), the PSALM, the Philippine Electricity Market Corporation (“PEMC”) and the Independent Electricity Market Operator of the Philippines (“IEMOP”).

### ERC

The ERC is an independent quasi-judicial industry regulator that monitors and regulates the overall operation of the power market. The ERC seeks to promulgate and approve rules, regulations, guidelines and policies, enforce rules and regulations including issuance of permits and licenses, resolve cases (i.e., involving rates and other cases) and disputes, and promote consumer interest. The power transmission business, being a natural monopoly of a utility service, is regulated by the ERC as required under the EPIRA.

Being the regulator, the ERC has the pivotal role of establishing and enforcing rules and regulations that would promote performance standards, efficiency of operation, implementation of reasonable and non-discriminatory rates while allowing the viable and sustainable operations of the transmission business.

Consistent with these mandates under the law, the ERC established the methodology for setting transmission wheeling rates as embodied in the Transmission Wheeling Rates Guidelines (TWRG), now the Rules for Setting Transmission Wheeling Rates (“RTWR”). See “—Rate Setting and the Regulatory Reset Process” below.

### Department of Energy

The DOE is responsible for the policy-making for the power industry and formulates and implements policies and programs to ensure sustainable, stable, secure, sufficient, accessible and reasonably priced energy.

NGCP, as the transmission network provider and System Operator for the country’s transmission grid, supports DOE’s compliance with the EPIRA and Republic Act No. 7638 (Department of Energy Act of 1992) to satisfy the required preparation, integration, coordination, supervision and control of all plans, programs, projects and activities of the Government relative to energy exploration, development, utilization, distribution and conservation.

NGCP coordinates and submits technical reports and studies to DOE which serve as input to the DOE in formulating and implementing policies and programs to ensure supply-demand balance for the country. NGCP regularly submits the following reports to the DOE:

- Transmission Development Plan for review and approval of DOE;
- Power delivery data;
- Report on system disturbance caused by natural and man-made calamities including status of restoration;
- Monthly status of NGCP transmission projects;
- Updates on transmission projects with pending writ-of-possessions and permits from government agencies and local government units;
- Grid Operating and Maintenance Program; and
- Response to concerns and complaints of transmission customers, local government units, and other entities endorsed by DOE.

### ***PSALM***

The PSALM engages in privatization of NPC's generation and TRANSCO's transmission assets. This entity is a contract counterparty to NGCP along with TRANSCO and is a recipient of the deferred liability of interest and concession fee payable.

### ***PEMC***

The PEMC governs the Wholesale Electricity Spot Market ("WESM") and serves as the autonomous group market operator and governing body of the WESM. PEMC transferred the market operations to IEMOP on September 26, 2018.

### ***IEMOP***

The IEMOP serves as the Independent Market Operator of the WESM and the Central Registration Body (CRB) for the retail electricity market. The IEMOP serves as the main platform for wholesale electricity trading by managing the registration for new entrants, receiving electricity bids and offers, demand forecasting, calculating real-time market prices and dispatch schedules of participants, monitoring the day-to-day market trading, and handling billing, settlement, and collections, among others. IEMOP, as the Market Operator, closely coordinates with NGCP as the System Operator to implement unhampered market dispatch instructions.

NGCP regularly provides operations data to IEMOP. Among these are the following:

- Meter data of trading participants;
- Grid disturbance reports including grid alert status;
- Grid Operating and Maintenance program; and
- Concerns of trading participants, must-run unit discrepancies, etc.

### **Rate Setting and the Regulatory Reset Process**

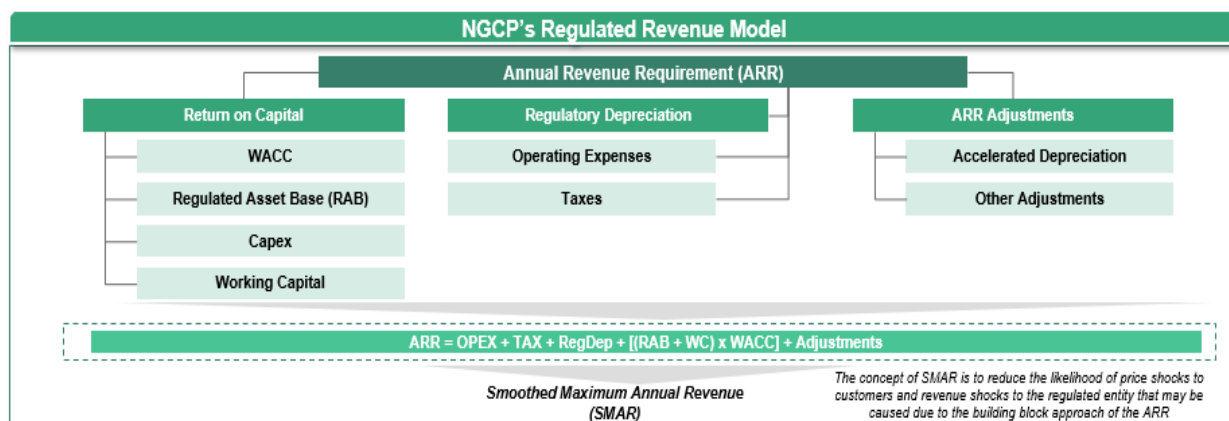
Any charges imposed by NGCP require ERC approval. The ERC administers the performance-based regulation ("PBR"), an internationally-accepted rate setting methodology which uses projections of operating and capital expenditures to enable the regulator to evaluate investment in facilities to meet customer requirements and prescribed service levels. In the Philippines, the RTWR provides for PBR using a revenue cap to regulate the MAR that the regulated entity can earn and to determine the maximum rates that may be charged by the regulated entity to its customers for the provision of regulated transmission services.

In particular, the revenue of the power transmission business for a specified five-year period (each, a "**Regulatory Period**"), is determined by a revenue-setting process known as the Regulatory Reset Process. During the Regulatory Reset Process, NGCP sets out its proposed investment plans and projected revenues for the relevant Regulatory Period. Under the RTWR, the financial building blocks and the formula that will form the basis of calculating the annual revenue requirements ("**ARR**") are the following:

- Operating and Maintenance Expenditure;
- Tax;
- Regulatory Depreciation; and

- Return on Capital

The diagram below illustrates NGCP’s regulated revenue model.



The RTWR also allows the regulated entity to recover the reasonable cost it incurs in providing efficient sub-transmission services to its transmission customers while clearly making a distinction between recovery for regulated transmission services and excluded services. In addition, the RTWR allows the regulated entity to recover pass-through charges in addition to the MAR (e.g., force majeure pass-through charge), subject to certain requirements and conditions as specified in the rules.

The PBR has a Performance Incentive Scheme (“PIS”) by which the regulator provides incentives and penalties to the utility to compel it to be more efficient and reliable, while maintaining reasonable rates and improving the quality of service to achieve pre-determined target levels.

To complement the RTWR, the OATS Rules were formulated to establish the methodology on the translation of the approved revenue into rates that the regulated entity bills the transmission customers.

Pursuant to the provisions of both the RTWR and the OATS Rules, NGCP, being the regulated entity, undertakes the filing of applications, submission of compliances and comments, and participation in the regulatory proceedings with the ERC as follows:

- Regulatory Reset Application;
- Maximum Allowable Revenue (MAR) and Net Performance Incentive Application;
- Force Majeure Event Claim Application;
- Connection Charges and Residual Sub-transmission Charges (CC/RSTC);
- Capital Expenditure (CAPEX) Application;
- Ancillary Services Procurement Plan (ASPP)
- Ancillary Services Procurement Agreement Application (ASPA); and
- Amendment to Rules (e.g., the OATS Rules).

In addition to this, NGCP takes active involvement and participation in the regulatory proceedings with the ERC on matters that determine precedent rulings on cases that impact both the transmission business and the rates that NGCP bills its customers, such as, but not limited to the following:

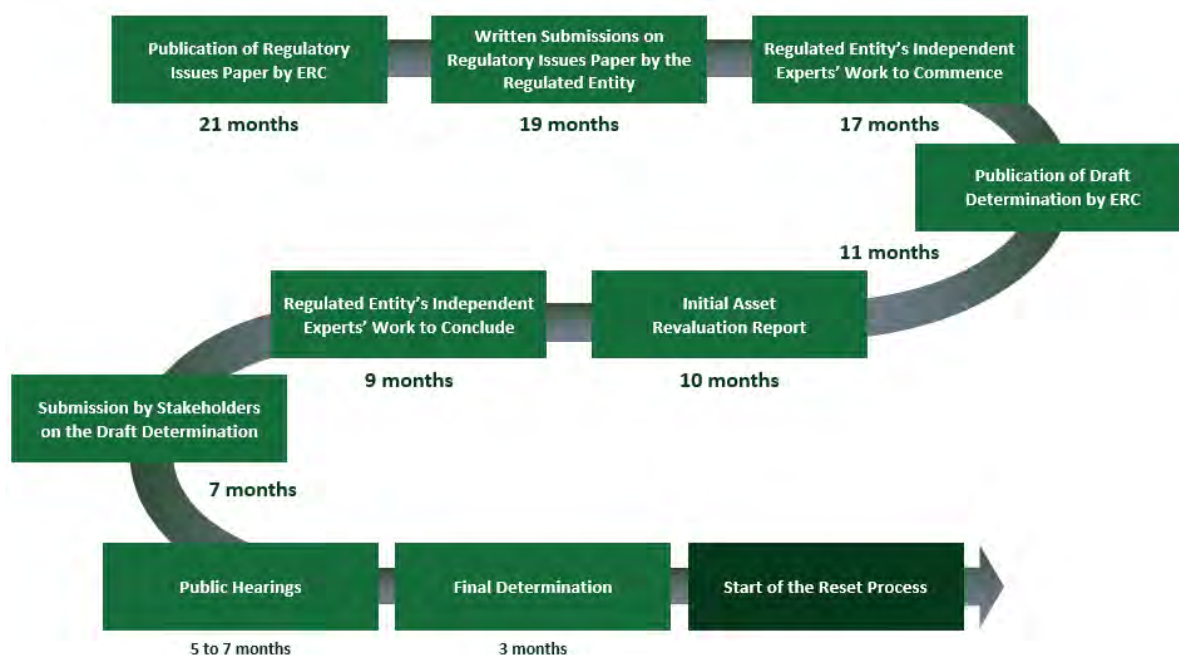
- Regulatory Reset of Distribution Utilities;
- Feed-in Tariff – Allowance (FIT-ALL) Applications;
- Sale of Sub-transmission Assets;
- Reclassification of Assets;
- Amendments of Rule Change Proceedings;
- Resolutions / Orders; and
- Universal Charge.

While the Regulatory Reset Process for the 3rd Regulatory Period was completed, the 4th Regulatory Reset Process for the period 2016 to 2020 and the 5th Regulatory Reset Process for the period 2021 to 2025 have not

been completed. In respect of the 4th Regulatory Period, NGCP initiated an inquiry with the ERC as to the timeline as early as February 2014 to ensure that the Regulatory Reset Process would be conducted in a timely manner and in a “Notice of Public Consultation” dated June 30, 2014, the Regulatory Reset Process of NGCP for the 4th Regulatory Period commenced. A series of public consultations were held in the cities of Davao, Cebu and Pasig in August 2014 but despite the preliminary activities undertaken, the 4th Regulatory Period Reset Process for the transmission business was not concluded.

In the absence of price and control arrangements with the ERC, in its Order dated 19 December 2016, alternative regulatory measures were taken such that ERC has provisionally granted authority to implement the 2016 interim MAR (“**2016 iMAR**”) to guide NGCP in the rate-setting process. The 2016 iMAR of ₱43,789 million was billed by NGCP from year 2016 to 2019. While the ERC has yet to commence the regulatory revenue setting for the 5th Regulatory Period, NGCP filed for 2020 interim MAR (“**2020 iMAR**”). On February 13, 2020, the ERC approved provisionally the 2020 iMAR amounting to ₱47,051 million, which is subject to adjustment in the next rate-setting process. In an Order dated July 28, 2020, the ERC suspended the implementation of the February 13, 2020 Order on the basis that there was a need to reassess the supply and demand assumptions in the light of economic disruptions brought about by the COVID-19 pandemic. On October 1, 2021, NGCP filed a Reiteratory Motion for Implementation of the 2020 iMAR with the ERC where it reiterated its request to (1) lift the July 28, 2020 Order on the ground that there has been a significant recovery and increase in demand and energy consumption since that Order was issued; (2) allow 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; (3) allow NGCP to recover the unbilled 2021 iMAR on top of the iMAR for 2022, to be implemented from April 2022 to December 2022; and (4) confirm that the approved 2020 iMAR level of ₱47,051 million 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.

The chart presents an illustrative timeline for a Regulatory Reset Process:



### ***Fifth Regulatory Period***

The ERC is in the process of resetting the transmission wheeling rates of NGCP and key part of that process is the validation and review to NGCP. The ERC has already commissioned consultants and technical experts who will be conducting the review and audits to NGCP. Review and validation activities by ERC have already commenced since the first quarter of 2021 for the following:

- Actual Performance of NGCP for Years 2016-2018;
- Compliance of NGCP’s technical operations;
- Historical/Actual Expenditures;

- Roll Forward Regulatory Asset Base for the 5th Regulatory Period; and
- Proposed Amendments to the OATS Rules and ASPP.

Likewise, NGCP is also expecting the ERC to expedite its review and validation of the following:

- Development of Transmission Regulatory Asset Base Handbook and Transmission Planning Manual;
- Process and Procedure of NGCP’s technical operations;
- System Security Audit of NGCP’s existing transmission assets/infrastructure network; and
- Development of Procurement Guidelines for the Regulated Transmission and Distribution Assets applicable to Regulated Entities.

With the above on-going activities of ERC, NGCP is optimistic that the regulatory undertakings for the 4th Regulatory Period and 5th Regulatory Period are forthcoming and expects that regulatory process for the 5th Regulatory Period may be completed before the end of 2022. Nonetheless, NGCP will continue to engage in interim regulatory actions to ensure continuity of its transmission operations without diminishing quality and efficiency of service.

## POWER TRANSMISSION NETWORK

### The Grid

The power transmission Grid, an interconnected system of towers, substations, lines and other high voltage equipment, comprises three main grids (each, a “**Main Grid**”): Luzon Grid, Visayas Grid and Mindanao Grid, and various sub-grids. The Grid connects the island of Luzon with the Visayas islands through a high voltage direct-current system (“**HVDC**”) and by 2022, the Mindanao Grid is expected to be interconnected with Visayas Grid upon completion of the Mindanao-Visayas Interconnection Project.

Since taking over the operations of the Grid from TRANSCO in 2009, NGCP has completed the construction of 3,375 CKM of new transmission lines (Luzon: 963 CKM; Visayas: 902 CKM; Mindanao: 1,510 CKM), increased substation capacity by an aggregate of 21,209 MVA (Luzon: 15,235 MVA; Visayas: 1,913 MVA; Mindanao: 3,971 MVA) and completed capacitor and reactor installations with an aggregate of 2,855 MVAR across Luzon, Visayas and Mindanao. As of June 30, 2021, the Company’s power transmission network had a total length of 20,732 CKM, 145 substations with 41,696 MVA substation capacity across Luzon, Visayas and Mindanao as follows:

	As of June 30, 2021			
	Transmission Line (CKM)	Substations	Substation Capacity (MVA)	Capacitor and Reactor Installations (MVAR)
Luzon	9,499	68	29,831	3,703
Visayas	5,379	43	5,724	872
Mindanao	5,855	34	6,141	453
<b>Total</b>	<b>20,732</b>	<b>145</b>	<b>41,696</b>	<b>5,027</b>

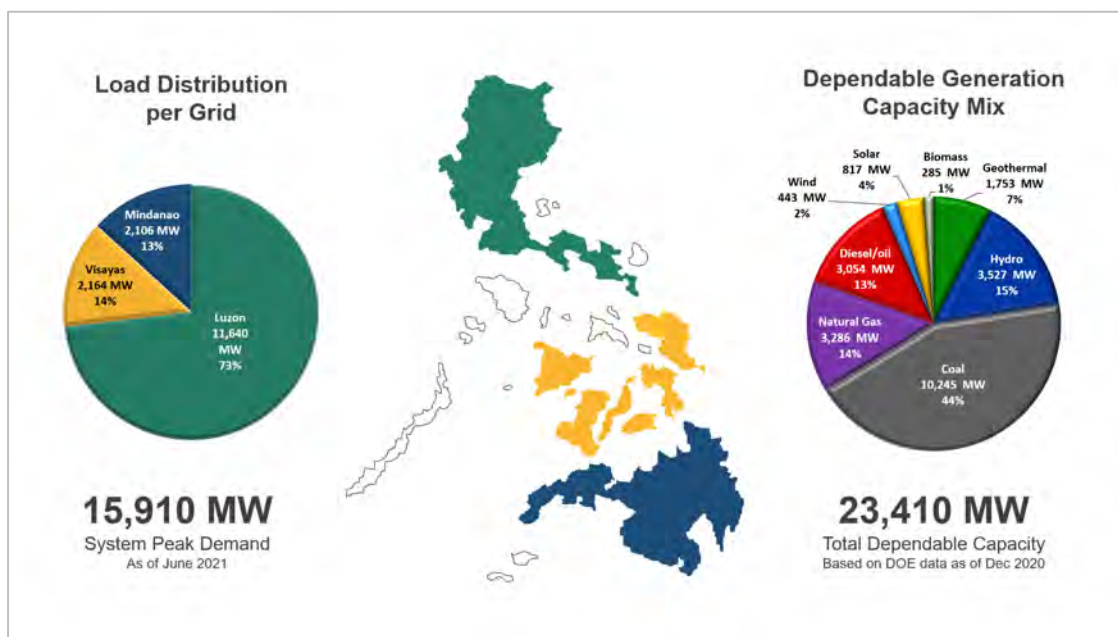
For the year December 31, 2020 and for the six months ended June 30, 2021, the recorded System Peak Demand (“**SPD**”) for the country reached 15,282 MW and 15,910 MW, respectively. The table below sets out the contribution of each of the three Main Grids to NGCP’s revenues for the periods indicated.

	For the year ended December 31,					For the six months ended June 30,				
	2018	2019	2020			2020	2021			
	(in millions)					(in millions)				
	₱		U.S.\$	%	₱	U.S.\$	%			
Luzon Grid	31,883.0	33,488.4	35,846.5	738.4	73.7	17,791.5	17,843.4	367.6	73.8	
Visayas Grid	6,551.0	5,503.4	5,896.8	121.5	12.1	2,959.0	2,935.7	60.5	12.1	

Mindanao Grid	6,968.0	6,404.7	6,863.3	141.4	14.1	3,432.6	3,407.1	70.2	14.1
<b>Total</b>	45,402	45,396.5	48,606.6	1,001.3	100.0	24,183.1	24,186.2	498.2	100.0

Note: Additional iMAR for December 31, 2020 amounting to ₱2,962.59 and June 30, 2020 and 2021 amounting to ₱2,273.20 (includes Deferred billing for April) and ₱1,631.30, respectively, were allocated based on the Grid's billed revenue.

The charts below present the load distribution per Main Grid as of June 2021 and the total dependable generation capacity based on DOE data as of December 2020.



In addition, NGCP has recently completed the following significant projects in the last three years:

- San Jose-Quezon 230 kV Transmission line 3 – completed in March 2020, this is an 18 km line providing additional 1,200 MW transmission capacity for Metro Manila
- Calamba 230 kV Substation – completed in March 2021, this new substation in Southern Luzon is strategically located near industrial loads and could also serve as a connection point for RE plants
- Visayas Voltage Improvement Project – completed in March 2020, this provides 75 MVAR from capacitor installations to improve power quality at several substations
- Mindanao 230 kV Transmission Backbone Project – completed in November 2020, this is an 80 km double-circuit transmission line running from Matanao, Davao del Sur to Bunawan, Agusan del Sur with 1,275 MVA capacity per circuit. There are new substations in Baloi and Villanueva leading to the full 230 kV-energization of the 335 km transmission backbone in Mindanao. This project included the expansion of existing substations located in the towns of Baloi, Lanao del Norte, and Villanueva, Misamis Oriental, leading to the full 230 kV-energization of the 335 km transmission backbone in Mindanao.

NGCP is continuing to improve, develop and expand the transmission network and as of June 30, 2021, there were 256 projects in the pipeline for the period 2021 to 2040.

## *Luzon Grid*

The Luzon Grid covers the National Capital Region, North Luzon and South Luzon. The National Capital Region, which is the load center, draws about 50% of the total demand in Luzon. In North Luzon, the transmission corridor covers the Ilocos Region, Cagayan Valley (except Batanes Province), Cordillera Administrative Region and Central Luzon. In South Luzon, the transmission corridor extends from Calabarzon (except Polilio Islands) to the Bicol Region except for the islands of Catanduanes, Masbate and Ticao Island, which are not yet connected to the Grid. The Southwestern Tagalog Region, which is a part of Mimaropa, will be soon connected to the Luzon Grid via Mindoro Island.



*Luzon Grid Map as of May 31, 2021*

In the Luzon Grid, while most of the power plants are located outside Metro Manila (i.e., in the provinces), approximately 70% of demand is serviced by Meralco, the Company's largest distribution utility customer, and attributed to end-users in Metro Manila and Greater Manila (including the neighboring provinces of Bulacan, Cavite, Laguna, Rizal and part of Quezon). The remaining 30% of demand services the rest of Luzon. As such the flow of power is generally towards Metro Manila. The 500KV transmission backbone carries bulk power generated from large power plants in North Luzon and South Luzon and passes through certain 230KV transmission line interchange points and key substations.

As of June 30, 2021, the SPD recorded for Luzon Grid reached 11,640 MW. This represents an increase of 4.8% compared with the same period in 2020. In terms of highest Operating Margin level, the Luzon Grid registered 2,681 MW for the first six months of 2021. Operating Margin is computed based on the difference of Available Generation Capacity minus the System Peak Demand for any given period (i.e., daily).

## Visayas Grid



*Visayas Grid Map as of May 31, 2021*

In the Visayas Islands, the transmission system is divided into five different sub-systems or sub-grids: (i) Panay, (ii) Negros, (iii) Cebu, (iv) Bohol, and (v) Leyte-Samar. As indicated in the map above, regions already covered by the Visayas Grid are the Western Visayas (covering the provinces of Aklan, Antique, Capiz, Guimaras, Iloilo, and Negros Occidental), Central Visayas (covering the provinces of Cebu and Bohol), and Eastern Visayas (covering the provinces of Leyte and the Samar Islands). Siquijor in Central Visayas and Camotes Island in Eastern Visayas are not yet connected to the Grid.

The Visayas Grid is a radial network where substations are interconnected by a double circuit transmission line. NGCP has a 350kV HVDC link to Luzon, the Ormoc substation in Leyte to Compostela substation in Cebu connected with 230kV transmission line; and the rest of the substations operating at 138kV. Most of the customers are connected in the sub-transmission voltage at 69kV. There are submarine cables connecting the sub-grids of Leyte, Cebu, Negros, Panay, and Bohol.

As of June 30, 2021, the Visayas Grid registered SPD of 2,164 MW. Compared with the same period in 2020, the demand in Visayas Grid is lower by 1.7%. This is attributable to the impact of COVID-19 pandemic to the energy consumption in the Visayas, which decreased in 2021. For the period January to June 2021, the highest level of Operating Margin recorded in Visayas Grid reached 736 MW.

## Mindanao Grid



*Mindanao Grid Map as of May 31, 2021*

For the Mindanao Grid, the transmission system is composed of: (i) North Western Mindanao Area (NWMA) that covers the provinces of Zamboanga del Norte, Zamboanga Del Sur, Zamboanga Sibugay, and Misamis Occidental; (ii) Lanao Area (LA) consists of the provinces of Lanao del Norte and Lanao del Sur; (iii) North Central Mindanao Area (NCMA), which coverage includes the provinces of Bukidnon and Misamis Oriental; (iv) North Eastern Mindanao Area (NEMA) comprises of the Agusan del Norte, Agusan del Sur, Surigao del Norte, and Surigao del Sur provinces; (v) South Eastern Mindanao Area (SEMA) covers the Davao Region, which is composed of Davao del Sur, Davao del Norte, Davao Oriental, Davao Occidental, and Davao de Oro; and lastly, (vi) South Western Mindanao Area (SWMA), which covers the provinces of South Cotabato, Cotabato, North Cotabato, Sultan Kudarat, and Maguindanao.

The Mindanao Grid backbone substations are Baloi, Villanueva and Bunawan with 230kV transmission highway although the bulk of transmission highways remain to be at 138kV and the power flows generally towards the eastern and western part of Mindanao. To the west is a radial configuration of 420km towards Zamboanga and Dipolog Cities with a NWMA peak demand of 306MW. To the east the power flows to Villanueva substation where the generation of existing coal plants converge for further flow farther east to Butuan Substation but the bulk of which flows southwards to Bunawan Davao and Gen. Santos substations.

In recent years the bulk of electricity demand has shifted to the south owing to the growing economic activity in the Davao and General Santos metropolitan areas.

The Mindanao Grid is generally a looping configuration except for the radial network to the west and one in the south serving Cotabato provinces. To support the Grid in terms of Grid restoration currently there are three restoration highways: one in the Zamboanga Area, the Iligan Area and the Davao Area, all of which have ample blackstart capacity providers. Agus plant generation are also transported thru the Agus2-Kibawe 138kV in going to the south thus completing the loop.

As of June 30, 2021, Mindanao Grid registered 2,106 MW demand, an increase of 6.5% from the 1,978 MW attained in the first half of 2020. In terms of Operating Margin, Mindanao Grid has the highest level of excess

capacity among the Main Grids, which reached almost 50% of demand. As part of NGCP’s initiatives to utilize the available capacity in the Mindanao Grid, NGCP is undertaking the Mindanao-Visayas Interconnection project.

*Mindanao-Visayas Interconnection Project*



The Mindanao-Visayas Interconnection Project is an ongoing project to build transmission lines of 712 CKM connecting Mindanao and Visayas regions, involving completion of two cable terminal stations (Dapitan, Zamboanga del Norte and Santander, Cebu) and two converter stations (Dumanjug, Cebu and Lala, Lanao del Norte). Of the planned 712 CKM, 280 CKM will be overhead lines in Dapitan and 248 CKM would be overhead lines across Cebu with the remaining 184 CKM comprising submarine cables, all of which will connect Mindanao’s installed capacity of 2.2 GW to the rest of the Philippines. The voltage level would be around  $\pm 350$  kV HVDC, and the transfer capacity would be around 450 MW. This is the first NGCP project for which a Certificate of Energy Projects of National Significance (“CEPNS”) was issued by the DOE, which certificate allows faster approval of permits and other energy project requirements from government agencies.

Over the span of three years from 2018 to 2020, capital expenditures for the Mindanao-Visayas Interconnection Project amounted to approximately ₱20.8 billion. The Mindanao-Visayas Interconnection Project is one of NGCP’s biggest projects and is a vital link to unify the Philippine Grid. The resulting unified Grid and wholesale market will operate across the three Main Grids and is expected to collectively account for around 98% of national electricity demand. The target completion date for this project is March 2022.

### ***Transmission Development Plan***

NGCP's Transmission Development Plan is aligned with the overall targets and objectives of the Philippine Energy Plan (PEP 2018-2040). In the PEP document, it is stated that to fulfill the vision of a strong, unified electricity transmission network that can meet the country's increasing power needs until 2040, the DOE warrants the formulation of a responsive Transmission Development Plan through the NGCP, giving due importance on continuous transmission system upgrades and expansion, generation siting with no reinforcement requirement, island interconnections, and building necessary transmission infrastructures to enable the connection of renewable energy plants. For 2021, NGCP has budgeted ₱38,955 million (US\$802.5 million) as capital expenditures of which ₱9,269 million has been spent as of June 30, 2021. These primarily relate to projects such as the Cebu-Negros-Panay 230KV Backbone Project-Stage3 (CNP3) Project and the Mindanao-Visayas Interconnection Project (MVIP) which is one of the NGCP's biggest projects, the vital link to unify the Philippine Grid. Other vital link projects are Pagbilao EHV Substation Project, and the Hermosa-San Jose 500KV TL Project in Luzon and Substation Upgrading Project in Mindanao. See "*Management's Discussion and Analysis of Financial Condition and Results of Operations—Capital Expenditures.*"

### **Grid Management and Maintenance**

The Grid is managed by a supervisory control and data acquisition ("**SCADA**") system that is used to monitor the real-time condition of the system and allows automatic control of all facilities connected to the Grid. There are power dispatchers engaged in generation and transmission dispatch. For generation dispatch, supply and demand are being balanced (utilizing AS Providers) while implementing the Real-time Dispatch Schedule of generators provided by the Market Operator, while the transmission dispatcher sees to it that the schedule being dispatched is compliant to N-1 contingency or ensure system security at all times.

To accommodate load growth and entry of new power plants, NGCP implements transmission line and substation expansions and develops new transmission backbone and new substations. To ensure the reliability and security of the Grid during faults and disturbances, a Network Protection Philosophy was also established that serves as the basis for the continuing upgrade of protection facilities in the Grid. In addition to the rehabilitation of aging facilities, the reliability of high-voltage equipment will be further improved through online monitoring and adoption of a condition-based maintenance strategy. NGCP also established its Overall Command Center and Regional Command Centers across the Grid to serve as focal stations during emergency situations or disasters. Moreover, aerial drone applications for transmission line inspection and surveys as well as application of light detection and ranging technology (LIDAR) have been already implemented.

### ***Performance Indices***

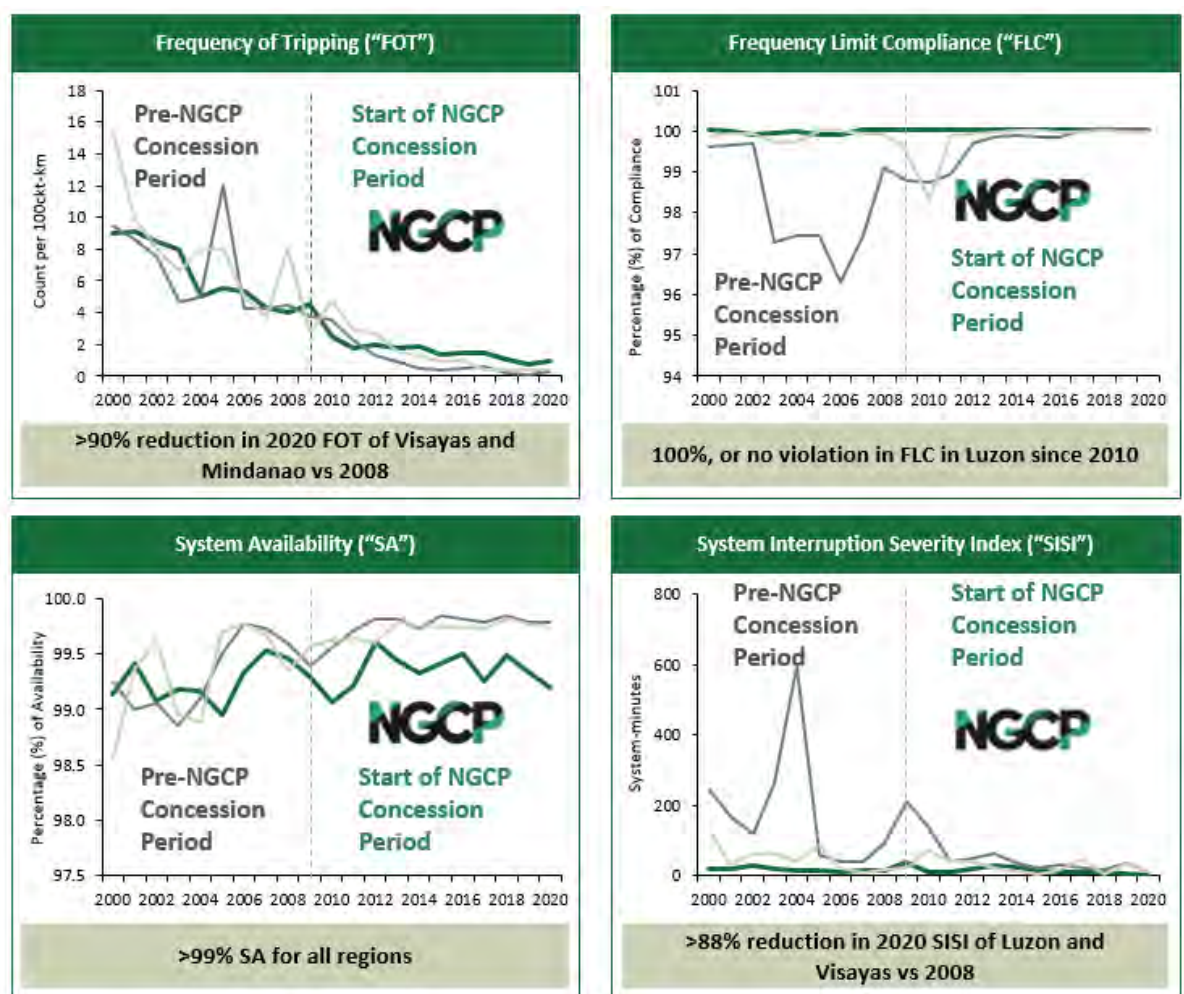
Based on the 3rd Regulatory Period Final Determination, the following are the 2011-2015 ERC-approved Performance Indices:

- System Interruption Severity Index (SISI) - the sum of the total unsupplied energy of all delivery points in the system divided by the system peak load. Delivery Point refers to the point of supply where energy from the bulk system is transferred to the distribution system (IEEE definition).
- Frequency of Tripping (FOT) - measures the number of forced transmission line outages (both transient and sustained) per 100 CKM initiated by the automatic tripping of protection relays.
- Frequency Limit Compliance (FLC) - refers to the percentage of time during the reporting/rating period that the system frequency is within the allowable frequency range  $60 \pm 0.3\text{Hz}$ .
- System Availability (SA) - circuit availability as a proportion of total circuit time refers to the availability of percentage of the system being considered to be on-line during the evaluation period.
- Voltage Limit Compliance (VLC) - refers to the percentage of the number of voltage measurements during the rating period that the voltage variance did not exceed  $\pm 5\%$  of the nominal voltage of buses identified in the inclusion (Luzon – 230 kV, Visayas – 230 kV/138kV, Mindanao – 138kV) monitored at the high side of the substation.
- Congestion Availability (ConA) (for Luzon Grid only) - measures the availability of a subset of lines and transformers in the Luzon and Visayas Grids.

- Ancillary Services Availability Indicator (ASAI) – measures the availability of ancillary services on each of the three Main Grids in accordance with the requirements of the draft Ancillary Services Procurement Plan.
- Customer Satisfaction Indicator (CSI) - NGCP’s performance on its CSI would be based on the responses to an annual survey of all generators, distribution utilities and directly connected customers that are connected to each of the three Main Grids.

For each performance measure, the ERC has established a dead band, a collar and a cap such that if the actual performance against the measure is within the dead band, there is neither a reward nor a penalty. A reward or penalty is applied on a pro rata basis if the actual performance lies between the dead band and the cap or collar. Outside this region, the reward or penalty is limited to the maximum that can be applied to that measure.

Since the commencement of the concession in 2009, network performance has significantly improved and stabilized. The charts below present the improvements in the following performance indices since NGCP was granted the concession and took over the operations of the Grid.

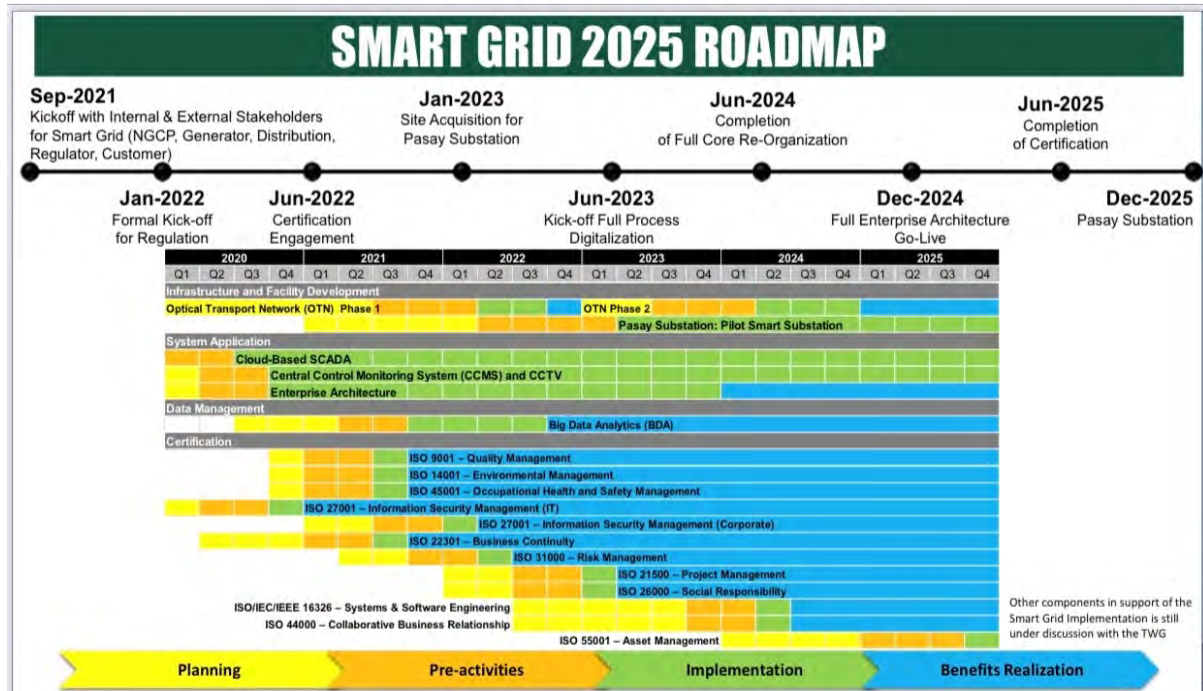


Given the delay in the 4th Regulatory Period and 5th Regulatory Period Reset Process, there are no ERC-approved PIS performance indices and parameters from 2016-2025.

However, the Company continuously monitors the performance of the transmission grid using the 3rd Regulatory Period ERC-approved indices, which also serves as reference in the annual submission of performance of the transmission grid to the ERC.

## Smart Grid 2025 Project

One of NGCP’s grid modernization strategies is the adoption of smart grid technologies. NGCP has implemented the upgrade of Supervisory Control and Data Acquisition-Energy Management System (SCADA-EMS), installation of flexible AC transmission system (FACTS) for better system voltage control, and installation of time synchronization devices, and transient fault recorders in major substations. These have significantly improved the observability and controllability including analysis of the Grid, which is a complex system. Moreover, the Company’s Smart Grid 2025 Roadmap will enable NGCP to implement Cloud-Based SCADA, online monitoring of high voltage equipment and unmanned substation operations in various pilot areas through Central Control and Monitoring System (CCMS) and CCTV, advanced Enterprise Architecture and others by 2025. This will allow NGCP to achieve relevant ISO certification and further improve the Company’s operating performance and efficiency.



## ENVIRONMENT, SOCIAL GOVERNANCE AND SUSTAINABILITY INITIATIVES

NGCP provides the needed transmission facilities for renewable energy plants for sustainable power supply and to support the thrust for a cleaner environment. From 2011 to 2020, approximately ₱56 billion has been invested into transmission projects promoting the delivery of power from existing and new hydro, geothermal, wind and solar power plants.

Through continuing implementation of transmission projects to accommodate new renewable energy plants, dependence on fossil fuels and CO<sub>2</sub> emissions will be reduced. NGCP has been part of the studies on Competitive Renewable Energy Zones (CREZ) that identified the areas with high quality RE resources, suitable topography and with strong developer interests. Accordingly, the transmission backbone projects needed to accommodate the RE plants are included in the Transmission Development Plan (2021-2040) and with projects already filed to the ERC. With CREZ capacity potential for wind and solar plants reaching a total 34,646 MW across the country, NGCP’s transmission projects are crucial in RE grid connections, power delivery to load centers and in driving the energy mix towards cleaner energy. From the year 2020 RE share of 21%, the DOE is targeting to increase the RE total share in the national energy mix to 35% by 2030 and to 50% by 2040.

Moreover, NGCP’s interconnection projects for off-grid areas such as Mindoro, Marinduque and Catanduanes will provide access to cleaner energy resources from the Grid thereby eliminating the high dependence of the islands on diesel plants. The interconnection projects are also expected to encourage development of indigenous renewable energy resources in the islands as a result of wider market opportunity.

NGCP understands that alongside its commitment to create a strong transmission network across the Philippines is its responsibility towards the host communities where its transmission lines, towers, and other structures are

located. NGCP established three pillars or advocacy groups where CSR efforts are focused: community development, sustainable livelihood, and environmental stewardship.

### **Community Development**

Through Community Development programs, NGCP provides the structural needs of its partner communities, giving them conducive spaces and facilities such as health centers and multi-purpose covered courts, as well as conducting medical missions, disaster risk reduction trainings, and outreach activities.

### **Sustainable Livelihood**

NGCP is committed to provide various means of support to partner communities through capacity-building activities such as *Project Linang*, a sustainable farm-to-table program, and *Project Baro*, which engages indigenous weaving communities.

*Project Linang*, which aims to help reduce hunger incidence by teaching communities to grow their own food, was recognized by the World Wide Fund for Nature – Philippines (WWF Philippines) as a Food Pillar Awardee. The project also promotes farming as a means of sustainable livelihood and a way of introducing new farming technologies to the communities.

### **Environmental Stewardship**

By being mindful of the environment, NGCP ensures the sustainability of its operations. One of NGCP's stewardship programs is the Wildlife and Nature Guardians (WINGS), which aims to ensure the survival of endemic species in each host community through studies, research, and continuous monitoring. In addition, NGCP has implemented reforestation and tree replacement programs in areas traversed by its transmission lines.

NGCP has also launched a Green Spark Program to stimulate positive change in host communities by introducing green and sustainable alternative lifestyle choices. For example, in San Lorenzo, Guimaras, NGCP partnered with Bambike Revolution Cycles, an organization supporting local tourism using bicycles made with locally sourced bamboo, to promote ecotourism centered on bicycling to explore the island's tourist destinations. For its Green Spark program in Rodriguez, Rizal, e-vehicles complete with charging stations were provided to the community.

### **Compliance with Environmental Laws**

The operation of NGCP's power transmission facilities is subject to extensive, evolving and increasingly stringent safety, health and environmental laws and regulations. These standard laws and regulations that govern the business operations of the Company are the Philippine Environmental Impact Statement System (Presidential Decree No. 1586), the Philippine Clean Air Act (RA 8749), the Clean Water Act (RA 9275), the Toxic Substances and Hazardous and Nuclear Wastes Control Act (RA 6969), and the Ecological Solid Waste Management Act (RA 9003), as may be amended from time to time. Such legislations address, among other things, air emissions, wastewater discharges as well as the generation, handling, storage, transportation, treatment and disposal of toxic or hazardous chemicals, materials and waste.

The Company believes that it has complied in all material respects with all applicable environmental laws and regulations. The adoption of new environmental laws and regulations, new interpretations of existing laws, increased governmental enforcement of environmental laws or other developments in the future may require that NGCP make additional capital expenditures or incur additional operating expenses in order to maintain the operations of its transmission facilities.

The Group has incurred, and expects to continue to incur, operating costs to comply with these laws and regulations. In addition, the Company has made, and expects to continue to make, capital expenditures on an ongoing basis to comply with environmental laws and regulations.

### **INFORMATION TECHNOLOGY**

NGCP relies on technology developments to enhance the resiliency and efficiency of infrastructure, manage processes core to its revenue and enhance the productivity of manpower resources. In addition, NGCP's IT platforms support its operations and enable the provision of services to customers. In particular, NGCP uses Salesforce and SAP ISU for customer relationship management and handling customer data, and MOBI and SAP ISU for billing information. In addition, NGCP uses various systems to support power transmission operations

and asset management such as SAP FICO, Project Systems, Material Management and Enterprise Asset Management. Internally, the Company uses i-Human Resource Application (iHRA) for personnel data, Document Asset Storage Hub (DASH) for company operations data and various SAP applications for procurement, inventory management, vendor data, financial systems and cash management.

NGCP's internal Information Technology Department ("ITD") aids management in attaining its corporate goals by maintaining a resilient, robust and stable information and communications technology infrastructure, to provide a digital yet secure environment for NGCP's computing requirements. The ITD's priorities includes the development and implementation of enterprise architecture for NGCP, improved network and infrastructure, streamlined IT services delivery and strengthening cyber security. The ITD maintains software licenses and ensures that all software licenses are updated. For critical applications, NGCP subscribes to enterprise and maintenance agreements with software providers.

## **DISASTER RECOVERY PLAN AND BUSINESS CONTINUITY**

NGCP has a business continuity plan and disaster recovery plan in case of emergencies and disasters to ensure that any interruption to the business is within the acceptable limit. NGCP has developed an integrated disaster action plan that provides guidelines for effective disaster management. Its objectives include mitigating the potential adverse effects of an event, preparation for managing the effects of an event, and effectively responding to, and recovering from a disaster or an emergency situation.

As System Operator, the Company undertakes "blackout simulation drills" on an annual basis to re-assess the readiness of all its facilities and existing protocols and procedures and to update existing power restoration highways. The annual drill includes other stakeholders (e.g., Generator Customers and distribution utilities) through "table-top simulation" and actual restoration drills. During the table-top simulation drills, the power restoration procedure and guidelines are presented to Grid users. The Company presents the division of the Grid into sub-grids, each with blackstart providers and how these sub-grids are integrated to restore the Main Grid. In conducting actual restoration drills (usually scheduled one week after the table-top drill), different scenarios are simulated such as multiple line tripping and cyber-attack. As part of these drills, NGCP measures the sub-grid restoration time and total restoration time and the use of the power restoration highways being updated during the table-top.

The Company's corporate management systems were certified by TUV to be ISO 27001 (*Information Security Management Systems*) compliant in 2021. Being ISO 27001 certified, NGCP has instituted processes under the ISMS framework which addresses data protection policies and information security controls in all of its business processes. In addition, NGCP ensures that key technologies for operations monitoring and control, such as SCADA EMS, have adequate back-up systems.

NGCP believes that it faces the COVID-19 pandemic better prepared in responding to, and handling, alarming threats. While NGCP has its Integrated Disaster Action Plan in place to help it respond to natural disasters, planning for a pandemic requires a different set of continuity assumptions. NGCP formulated a guideline based on sound business continuity planning. The guideline ensures that NGCP's critical functions continue to operate amid the pandemic and adopt to the current situation as the threat develops day-to-day.

NGCP was not spared from the COVID-19 pandemic, which triggered the implementation of existing business continuity processes across the organization. In accordance with this plan, multi-level contingency measures were implemented to ensure the safe, reliable, and efficient grid operation while securing our workforce, particularly the Company's dispatchers who are critical in the Grid's operations.

For system operations, among the contingency measures implemented is the continuous isolation of Power Grid Dispatchers who were placed in a bubble at the National Control Center. This was intended to limit their exposure to the virus and provide a safer setting for their daily work operation. Prior to their shift, all dispatchers undergo seven day quarantine in a facility separate from the system operations location, and on the 5<sup>th</sup> day, undergo RT-PCR COVID-19 testing before they are allowed to enter the bubble at system operations building for duty.

## **DATA PROTECTION AND CYBERSECURITY**

Data protection laws govern the use of data obtained from customers, including the manner of collection, use and security of personal data. NGCP has systems in place to require any person who controls the collection, holding,

processing or use of data to comply with its statutory obligations in respect of data protection. NGCP also ensures that data collected has the appropriate consent given prior to use.

The potential for cybersecurity attacks from external parties is limited due to the nature of NGCP's network infrastructure as well as policies and mechanisms that are in place to ensure that its assets are protected.

NGCP has implemented various controls to safeguard the Company's information assets following ISO 27001 standards. The ITD identifies vulnerabilities in the system through the conduct of regular internal and external vulnerability assessments, and timely resolution and mitigation of these vulnerabilities are completed upon determination.

In addition, NGCP has implemented a Cybersecurity Plan and Roadmap for 2021 to 2025 to establish more robust cybersecurity controls on applications pertaining to critical data of the business. Approximately 23% of the total IT budget for the 5th Regulatory Period was allocated to information security.

## **CUSTOMERS**

NGCP serves transmission customers who are classified as (i) Generator Customers and (ii) Load Customers, which includes distribution utilities and direct-connect customers, electric cooperatives, private utilities, government utilities, government entities, and economic zones. Consistent with the EPIRA and the OATS Rules, NGCP treats all customers as equal and without discrimination.

### **Generator Customers and Load Customers**

Generator Customers and Load Customers are further differentiated as follows:

#### **Generator Customer**

*Power Generation Customers*

- Customers that are directly or indirectly connected to the NGCP system and authorized by the ERC to operate facilities used in the generation of electricity;
- Further classified into non-embedded and embedded generators; and
- Pay NGCP for ancillary services charge (collected on behalf of generators).

#### **Load Customer**

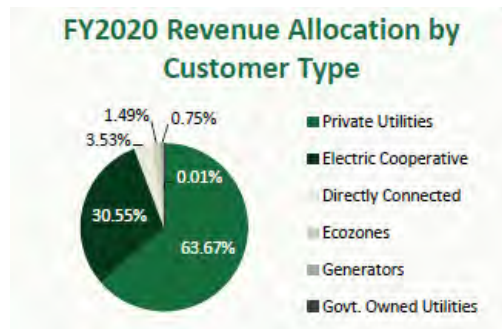
*Electric Cooperatives, Industries (Direct Customers), Private Utilities, Government Utilities, Government Entities and Economic Zones*

- Require the supply and delivery of electricity for their own use or for distribution purposes;
- Pay NGCP for the transmission of electricity from generator customers;
- Pay ancillary service charge which NGCP collects on behalf of generators; and
- Customers not directly connected to distribution utilities pay universal charge and FIT-All, which is remitted to PSALM.

As of June 30, 2021, NGCP had 177 Generator Customers and 220 Load Customers for a total of 397 customers. NGCP's 220 Load Customers comprises 130 distribution utilities (i.e., 20 private utilities, 99 electric cooperatives, one Government-owned utility and 10 economic zones), 77 industry (direct customers) and 13 Government entities.

Majority of NGCP revenue is derived from Load Customers. For both 2020 and for the six month ended June 30, 2021, 99.2% of revenue was from Load Customers and 0.8% came from Generator Customers.

NGCP's revenue allocation by customer type, for the year ended December 31, 2020 is set out below:



For the year ended December 31, 2020 and for the six months ended June 30, 2021, NGCP derived more approximately 46.6% and 46.5% of revenues from a Meralco alone, the biggest Distribution Utility customer in the country. For 2020, 62.5% of revenue were derived from NGCP’s top 10 customers which includes Meralco, and for the period from January to June 2021, revenue from the Top 10 customers accounted for 58.4%. Given that NGCP is the sole System Operator and Transmission Provider, even if NGCP derives a substantial amount of revenues from one customer (Meralco), it does not expect that it would lose Meralco as a customer.

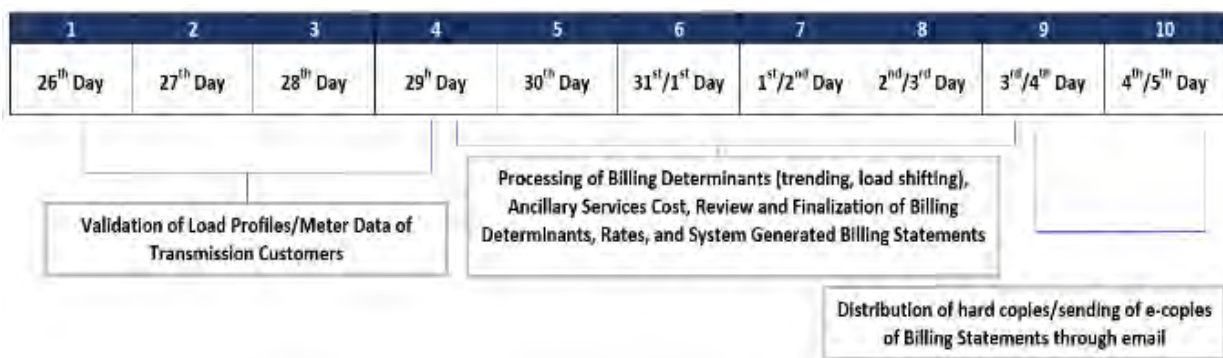
**Billing of Customers**

The billing procedure is generally the same for both Load Customers and Generator Customers. They are billed monthly based on their demand (kW-month) billing meter registration.

The procedure is based on Rule F4.1 of the OATS Rules, which provides:

*“Billing Statement. Within ten (10) days after the Billing Period, the Transmission Provider shall issue a billing invoice and statement ("Billing Statement") to each Transmission Customer, detailing all charges and credits for that previous Billing Period for the services provided under these OATS Rules. The Billing Statement shall list separately the charges for all services provided by the Transmission Provider/System Operator under these OATS Rules during the preceding Billing Period and present the net amount due from or to the Transmission Customer. The Billing Statement shall include all supporting data necessary to enable the Transmission Customer to verify the amount payable to, or owed by, the Transmission Provider for that Billing Period.”*

Based on the above provision, the table presents the timeline of billing transmission customers by NGCP as the Transmission Provider:



**SUPPLIERS**

In connection with its operations, NGCP enters into supply contracts, turnkey contracts, installation and works contracts and supply/service agreements with various third parties. Vendors are required to undertake an accreditation process, which is periodically reviewed, and failure to adhere to the Company’s policies results in removal from NGCP’s list of accredited vendors. As of June 30, 2021, there were more than 1,000 NGCP-accredited vendors supplying services and equipment.

NGCP believes that it is not dependent on a limited number of suppliers for its business operations. In the year 2020, the percentage of purchases attributable to its largest supplier/contractor was less than 8%, and the

percentage of the Company’s purchases attributable to its 10 largest suppliers and contractors was less than 50%. If any one of its suppliers is unable or unwilling to supply NGCP in the future, the Company believes alternative sources of supply for the equipment and services require will be available. In addition, NGCP sources equipment and materials locally and from different continents such as US, Europe, and Asia to ensure supply chain continuity.

The procurement of goods and service is usually conducted through competitive bidding and alternative methods of procurement are permitted in certain circumstances such as in the case of repeat orders, single-source contracting and expedited/ emergency purchases. Under the competitive bidding process, NGCP awards the bidder with the “Most Advantageous Bid” based on parameters such as price, performance rating, track record, quality of products/services, vendor's capacity to deliver the requirement and total cost of ownership.

NGCP reviews the performance of each supplier periodically, assessing the quality of work performed and materials supplied by the supplier against the requirements set out in the contractual agreements, technical evaluation process, construction standards and quality policies under integrated management systems requirements.

**COMPETITION**

The power transmission business in the Philippines, being a natural monopoly of a utility service, is regulated by the ERC as required under the EPIRA. There is no competing power transmission service provider in the Philippines. As the regulator, the ERC plays the pivotal role of establishing and enforcing rules and regulations that would promote performance standards, efficiency of operations, and implementation of reasonable and non-discriminatory rates, while allowing the viable and sustainable operations of the transmission business. See “*Overview of Regulatory Framework—Rate Setting and the Regulatory Reset Period*” governing the implementation of PBR for further details on rate setting.

**HUMAN RESOURCES**

NGCP believes that its employees are critical to its success, and places great importance on attracting and retaining the most talented and qualified employees to be part of its team.

As of June 30, 2021, NGCP had 4,965 full-time employees broken down as follows:

<b>Category</b>	<b>Number of Employees</b>
	<b>As of June 30, 2021</b>
Key Management .....	45
Manager.....	310
Supervisor .....	421
Rank and File .....	4189
<b>Total.....</b>	<b>4,965</b>

Furthermore, NGCP engages various DOLE-accredited service providers for certain technical services such as fleet administrative services, engineering survey services, materials technician and handling services, geomatics services, CAD operator services and other support services.







Under its integrated corporate services (“**ICS**”) program, NGCP has outsourced under one contract and management team the following services: document handling, clerical and office support, general corporate services and billing validation. The services performed by the ICS service provider are in accordance with the agreed service level agreement meeting NGCP requirements and standards and are administrative in nature, enabling NGCP employees to focus on their core functions. NGCP has also engaged with several integrated facilities management (“**IFM**”) providers for professional management services necessary to maintain and preserve NGCP buildings, facilities and equipment at various locations. The IFM providers perform services based on the agreed service level agreement in accordance with the required specifications and standards set by NGCP.

NGCP does not have any collective bargaining agreement with any employee and none of its employees belong to a union. NGCP believes that it maintains a good relationship with its employees.

To ensure that the Company attracts and retain members of the management team and employees, NGCP offers competitive salary and benefits packages and encourage employees to join relevant management training programs. Talent management initiatives are in place at different levels of the organization. For leadership positions, performance and potential evaluation tools are used by management teams to identify capable and high-potential employees. These employees, in turn, are developed through various approaches (training, coaching by their leaders, and on-the-job, e.g. special projects and cross-training) to prepare them for future roles.

## INTELLECTUAL PROPERTY

NGCP has registered the following marks with the Intellectual Property Office:

<u>Brand Name/Mark</u>	<u>Registration Number</u>	<u>Registration Date</u>	<u>Expiration Date</u>
NGCP Logo (3rd Gen - Bridging Power & Progress) 	4/2018/00005975	26-Aug-18	26-Aug-28
NGCP Mascot Linoy 	4/2016/00002684	22-Sep-16	22-Sep-26
NGCP Logo (2 <sup>nd</sup> Gen – Circle) 	4/2016/00002686	22-Sep-16	22-Sep-26
NGCP Planting Strong Future 	4/2016/00008432	22-Sep-16	22-Sep-26
NGCP National Grid Corporation of the Philippines (Horizontal) 	4/2016/00008431	4-Jan-17	4-Jan-27
NGCP Zero Harm Safety Logo 	4/2018/00005976	26-Aug-18	26-Aug-28

*Note: Maintenance of these marks is subject to the filing of Declaration of Actual Use with the IPO.*

NGCP is not reliant on patent and trademark registration since it is a public utility, and the success of business operations does not rely on patented products or processes, or any other business output requiring protected intellectual property rights.

In respect of website domains, NGCP's IT Department is currently handling the registration of website domains with the official domain registry of the Philippines (*dotPH*) as set out below.

<b>Domain</b>	<b>Creation Date</b>	<b>Expiration Date</b>
ngcp.ph	Dec 10, 2008	Dec 10, 2022
ngcp.com.ph	Mar 25, 2011	Mar 25, 2023
ngcp.net.ph	Mar 25, 2011	Mar 25, 2023
ngcp.org.ph	Mar 25, 2011	Mar 25, 2023

NGCP maintains the registration of these domains to prevent other organizations or entities from using “NGCP” in the internet. The Company relies on the registered domains for the exclusive representation of its brand on the internet. These domains are protected by secure socket layer (SSL) certificates which is an industry standard approach for protecting domains.

Other than as described above, there are no other patents, trademarks, copyrights, licenses, franchises, concessions and royalty agreements not disclosed or otherwise discussed in this Prospectus.

## RESEARCH AND DEVELOPMENT

NGCP allocates budget for research and development. The following table shows NGCP’s budget for research and development during the last three fiscal years, and the percentage of such budget to its revenues during the same period:

	<b>2018</b>	<b>2019</b>	<b>2020</b>
		(in ₱ millions)	
Research and Development Costs	30.4	32.2	59.3
Revenues	45,402.0	45,396.5	48,606.6
<b>Percentage of R&amp;D Cost to Revenues</b>	0.07%	0.07%	0.12%

## INSURANCE

NGCP is mandatorily required to secure insurance cover for the transmission assets and obtains and maintains appropriate insurance coverage on its properties, assets and operations in such amounts and covering such risks as are usually carried by companies engaged in similar businesses and using similar properties in the same geographical areas as those in which it operates.

NGCP transmission assets are covered by the Industrial All Risk (IAR) insurance with sabotage and terrorism cover and submarine cable. The IAR insurance also covers other risks including natural catastrophes (typhoon, flood, tsunami, earthquakes, volcanic eruption), among others. The covered transmission assets include the sub-stations and CTS, submarine cable, metering, system operations, the NGCP main building and System Operator building, among other structures and facilities. For the period 31 January 2021 up to 30 January 2022, NGCP’s IAR insurance has total insurable assets of approximately ₱148 billion or US\$2.9 billion. NGCP’s insurance providers are Government Service Insurance System (GSIS) and Prudential Guarantee and Assurance Inc. (PGAI). The Company believes that the IAR insurance cover is competitive as compared to industry standards. NGCP does not carry business interruption insurance.

## OCCUPATIONAL HEALTH AND SAFETY

NGCP is compliant with applicable statutes and regulations on occupational health and safety standards and has appointed safety officers to oversee its safety programs. As provided in its OSH Policy, the Company is committed to protect its employees and assets from risk of injury, damage or loss. The Company prevents incidents, injuries and occupational illnesses in the workplace by conducting activities in the safest possible manner without detriment to the health and well-being of employees, contractors, customers and the public. The Company closely tracks incident statistics including lost time injuries, medical treatment cases and first aid cases and fatalities (employees, contractors and third party) and have safety performance measures in place to review outcomes after an incident and implement procedures to prevent or reduce future incidents. Work-related incidents include vehicular/road accidents, electrocution, and accidents at the construction sites.

NGCP also launched a “Zero Harm” campaign to identify root causes of fatal accidents and have implemented safety programs targeted at NGCP employees (e.g., safety orientation sessions, inspections and job hazard analysis), contractors’ personnel (e.g., strict review of compliance with applicable DOLE regulations and safety passporting) and third parties including the public generally (e.g., community safety campaigns and notices of electrocution hazards).

NGCP’s operations and facilities are also subject to DOLE inspections and audit. As of June 30, 2021, there were no observations or findings on safety by the DOLE. In 2018, the Company obtained the OHSAS 18001 Occupational Health and Safety Management System certification.

NGCP possesses the required permits and licenses to operate its facilities. See “*Regulatory and Environmental Matters*” for more information on the key occupation health and safety regulations in respect of its operations.

In respect of the COVID-19 pandemic, for the large majority of the employee population, a work-from-home policy was implemented, while a lean skeleton workforce was maintained in office locations. NGCP also adapted to the continuing quarantine restrictions by boosting the remote work access capability of its workforce, and enhancing its local government network of contacts to help facilitate the movement of its field personnel across jurisdictions. NGCP continues to provide physical and mental health support to its employees through its ongoing vaccination program, upgraded remote medical consultation, and regular mental health checks.

## **PROPERTY**

See “*Description of Property*”.

## **LICENSES AND PERMITS**

See “*Description of Permits and Licenses*.”

## **LEGAL PROCEEDINGS**

NGCP is party to several legal proceedings and claims that have arisen in the ordinary course of business, including those set out below and the outcome of these proceedings cannot be presently determined or predicted with certainty. See “*Risk Factors—Risks Relating to NGCP—The Company is involved in legal proceedings from time to time.*”

### **Civil Cases and Arbitration Proceedings**

As of June 30, 2021, there are 11 cases for damages, recovery of possession, collection, declaratory relief, and injunction filed by NGCP and two cases filed against NGCP which are pending with the different trial courts nationwide. The total estimated amount of claims by NGCP for these civil cases is approximately ₱480 million. There are three cases filed against NGCP involving recovery of possession of properties that are allegedly being occupied by NGCP without right, with total claims of approximately ₱12.6 million.

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

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

### **SIAC Arbitration**

On February 28, 2008, NGCP, PSALM and TRANSCO entered into a Concession Agreement, which granted NGCP the Concession to operate the country's power transmission network. In consideration for the grant of the Concession, NGCP agreed to pay PSALM US\$3.950 billion as Concession Fee, 25% (or at NGCP's option, a higher percentage) of which was payable at the Commencement Date, with the balance payable to PSALM in semi-annual installments ("**Deferred Payments**") in accordance with Schedule 5 of the Concession Agreement. Moreover, Section 6.07 of the Concession Agreement granted NGCP the option to prepay any Deferred Payment or any portion thereof, as well as the right to determine which Deferred Payment or portion thereof it opted to prepay, so long that there is no amount due to PSALM or TRANSCO under the Concession Agreement (including the Deferred Payments) and other Transaction Documents "that are in arrears".

On July 15, 2013, NGCP formally exercised its option to prepay under Section 6.07 of the Concession Agreement, paying the amount of ₱57,883,053,062.96, representing the Deferred Payments for the period covering January 15, 2014 to January 15, 2024 (the 10<sup>th</sup> to 30<sup>th</sup> Deferred Payments). PSALM accepted the prepayment. In a letter dated August 15, 2013, PSALM acknowledged NGCP's compliance with the provision of Sections 6.07 (Prepayment) and 8.05 (Indebtedness). On October 3, 2013, PSALM forwarded to NGCP an official receipt acknowledging its receipt of the prepayment without any qualification or reservation.

In May 2017, or almost four years after accepting NGCP's prepayment, TRANSCO and PSALM demanded that NGCP settle its alleged outstanding obligations to TRANSCO in the amount of around ₱3.9 billion. These alleged outstanding obligations to TRANSCO supposedly invalidated NGCP's exercise of its option to prepay. NGCP disputed this claim stating that none of the obligations to TRANSCO was due or in arrears at the time of the prepayment.

On January 15, 2018, pending settlement negotiations between the parties, PSALM unilaterally set aside the prepayment, declared the prepayment invalid and informed NGCP that PSALM had applied the prepayment of ₱57.88 billion to "the maturities under the [Concession Agreement] from January 2014 to January 2018" in accordance with "the Deferred Payment Amortization Schedule prior to the 15 July 2013 remittance."

On February 14, 2018, NGCP commenced an arbitration administered by the Singapore International Arbitration Centre ("**SIAC**") against PSALM and TRANSCO relative to the implementation and interpretation of the parties' February 28, 2008 Concession Agreement. In the arbitration, NGCP seeks a declaration that the prepayment that it had made on July 15, 2013 amounting to ₱57.88 billion is valid, and seeks the payment of other monetary claims of approximately ₱4 billion relating to the proper Concession Fee adjustment amount for "Projects Under Construction", sale of "Sub-Transmission Assets" and settlement of "Excluded Liabilities" and/or "Retained Obligations" which should have been borne by TRANSCO under the Concession Agreement, but were advanced by NGCP. NGCP also seeks a declaration that (i) it, and not TRANSCO, has the exclusive mandate to prepare the Transmission Development Plan (TDP), which is the principal document that lays out the planning, management, and operations (including capital expenditure plans) of the country's national transmission system; and that (ii) TRANSCO may not, for the duration of the Concession, use or otherwise commit the "Transmission Assets" (as defined in the Concession Agreement) in a manner that would restrict NGCP's right to use those assets.

On the other hand, PSALM and TRANSCO seek a declaration from the arbitral tribunal that NGCP is in Concessionaire Default for having allegedly violated the nationality restrictions applicable to public utilities under Philippine law (including the Philippine Constitution and the Philippine Anti-Dummy Law). Specifically, PSALM and TRANSCO allege that certain former foreign nationals employed by NGCP occupied prohibited managerial, operational, or control positions in violation of the Philippine Anti-Dummy Law. Apart from a declaration of Concessionaire Default, PSALM and TRANSCO seek a declaration that all of NGCP's claims are inadmissible due to these alleged breaches, *i.e.*, that NGCP be declared disqualified from enjoying the rights and benefits under the Concession Agreement, including the right to bring any claim in arbitration arising from and/or in connection with the Concession Agreement and/or Philippine laws. PSALM and TRANSCO thus seek the dismissal of all of NGCP's claims and reliefs and a declaration that NGCP's prepayment was void and without legal basis. They seek payment of the interest amounts that should have been paid after July 15, 2013 on the basis that the prepayment was invalid, the amounts due and in arrears to TRANSCO when the prepayment was made, as well as interest on those amounts. They also seek payment of the installments for the Concession Fee that were not validly prepaid.

PSALM and TRANSCO further dispute NGCP's monetary claims and seek counterclaims of ₱2.7 billion as part of TRANSCO's Excluded Receivables, plus interest. They disagree with NGCP's proposition on how to calculate the Concession Fee adjustment for the sale of Sub-Transmission Assets and ask for an adjustment of the Concession Agreement in their favor in the amount of USD26,973,945.73 for Projects Under Construction. They seek reimbursement of their costs and expenses in the arbitration.

In addition, PSALM and TRANSCO dispute NGCP's claims with respect to the TDP and the use of the Transmission Assets, and seek a declaration that NGCP breached its obligations under the Concession Agreement regarding: (i) its IPO obligations, (ii) Permitted Indebtedness, (iii) its insurance obligations; (iv) its obligation to consult TRANSCO in preparing the TDP consistent with DOE Order No. DO2017-04-0004 ("**DOE Order**"), which gives TRANSCO broad powers to obtain documents and requires NGCP to consult and actively involve TRANSCO in the preparation of the TDP, as well as obtain a formal certification from TRANSCO that it was so consulted; (v) the maintenance of separate accounts for Related Businesses; and (vi) compliance with applicable law on eminent domain (considering that NGCP had filed expropriation complaints against Government Owned and Controlled Corporations).

Hence, the arbitration involves issues relating to the validity of NGCP's prepayment on July 15, 2013, some adjustments to the Concession Fees, as well as the parties' respective monetary claims. It also involves the parties' respective claims of breach by the other party of certain provisions of the Concession Agreement, including NGCP's alleged violation of nationality restrictions and its right, in light thereof, to bring claims in the arbitration.

The arbitration is ongoing and NGCP expects it to be concluded by the end of 2022 or by early 2023.

In a related suit, shortly after PSALM unilaterally set aside the prepayment and prior to initiating the SIAC arbitration, NGCP filed a petition for interim relief before the Regional Trial Court of Quezon City. Before the constitution of the tribunal in the SIAC arbitration, a Temporary Order of Protection and, subsequently, a Writ of Preliminary Injunction were issued by the Regional Trial Court of Quezon City to enjoin PSALM and TRANSCO from, among other things, declaring NGCP in default of the Concession Agreement, in an effort to preserve the status *quo*. The Writ of Preliminary Injunction remains effective to date, which means that PSALM and TRANSCO cannot declare NGCP in default of the Concession Agreement unless and until the Writ of Preliminary Injunction is modified or revoked by the tribunal in the SIAC arbitration. PSALM and TRANSCO appealed the issuance of the Writ to the Court of Appeals, which dismissed the appeal in a Decision dated September 25, 2019 for lack of jurisdiction given that the arbitral tribunal had already been constituted on April 12, 2018. The Court of Appeals' Decision has since attained finality as PSALM and TRANSCO no longer appealed to the Supreme Court.

NGCP believes that its claims in the arbitration are well-founded. NGCP did not violate the Concession Agreement, nor the Philippine Anti-Dummy and nationality laws. It is 60% owned by Filipinos, consistent with the Constitution. NGCP's engagement of foreign nationals for technical positions was lawful and was specifically contemplated by Republic Act No. 9136, the EPIRA. These foreign nationals did not intervene in NGCP's management, operation, administration or control.

With respect to prepayment, NGCP exercised its option to prepay the Deferred Payments based on prior extensive discussions with PSALM, and PSALM accepted NGCP's prepayment in July 2013. Thereafter, PSALM acknowledged NGCP's compliance with the provision of Sections 6.07 (Prepayment) and 8.05 (Indebtedness) and forwarded to NGCP an official receipt acknowledging its receipt of the prepayment without any qualification or reservation on October 3, 2013. It was only in May 2017 when PSALM and TRANSCO demanded that NGCP settle alleged outstanding liabilities at the time of the prepayment amounting to ₱3.9 billion, which liabilities supposedly invalidated the prepayment. Even after claiming that the prepayment was invalid, PSALM retained the prepayment.

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

reimbursement of amounts it advanced for “Excluded Liabilities” and/or “Retained Obligations” which should have been borne by TRANSCO under the Concession Agreement.

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

However, there is no assurance that the arbitral tribunal will accept NGCP’s position and rule favorably on its claims and against the counterclaims of PSALM and TRANSCO. Moreover, a party prevailing on its monetary claims may not necessarily prevail on its non-monetary claims.

### **Tax Cases**

The Supreme Court ruled in a case in 2016 (the “**Oliva Case**”) that NGCP is exempt from payment of real property tax on properties used in connection with its Franchise. The Bureau of Local Government Finance, a bureau of the Department of Finance (“**DOF**”) has also issued various memorandum circulars and letters confirming NGCP’s exemption from real property taxes, local franchise tax and business taxes. NGCP is continuously and actively asserting its exemption from tax on all properties used in connection with the Franchise and is proactively negotiating with various LGUs for the recognition of its exemption, and for the refund of all real property taxes paid under protest. As of June 30, 2021, NGCP obtained 3,454 tax exemptions covering lands, buildings and machineries located in various cities, municipalities, provinces involving real property with assessed value in the aggregate amount of approximately ₱9,661 million.

As of June 30, 2021, NGCP had a total of 95 real property tax and franchise and business tax cases pending before the Local Board of Assessment Appeals (“**LBAA**”), Central Board of Assessment Appeals (“**CBAA**”), Regional Trial Courts (“**RTC**”), Municipal Trial Courts (“**MTC**”), the Court of Tax Appeals (“**CTA**”) and the Supreme Court, and 39 real property notices of assessment and tax billings with no tax cases filed.

Out of the 95 petitions still pending before the various LBAAAs, CBAA, RTCs, MTCs, CTA and the Supreme Court, 52 pertain to petitions contesting the Notices of Assessment issued by the relevant Provincial or City Assessors or City Treasurers, involving property with an aggregate assessed value of ₱12.7 billion for real property tax purposes, and ₱266.9 million tax assessment for eight franchise/ business tax cases; while 35 cases involve Payment Under Protest contesting the Statements of Account or Billings issued by the Provincial or City Treasurers in the total amount of ₱43.8 million for real property taxes paid under protest.

### **Right of Way (ROW) Expropriation Cases**

Under the Franchise, the Company is authorized to exercise the right of eminent domain insofar as this may be reasonably necessary for the construction, expansion, and efficient maintenance of the transmission system and the Grid. Thus, NGCP may acquire private property as actually necessary for the realization of the purposes of the Franchise.

As of June 30, 2021, there were 1,681 expropriation cases filed or otherwise pending with various courts across the Philippines, including cases relating to projects under construction (PUC) turned over to NGCP by

TRANSCO, with the total estimated amount involved of ₱5.2 billion (based on provisional deposits and subject to the final determination by the court of the compensation due for the relevant property).

### **Reclassification Case**

As of June 30, 2021, there are six reclassification cases pending resolution and one case subject of a Motion for Partial Reconsideration before the ERC. These cases involve assets which are currently not part of the Company's RAB but are performing transmission functions and therefore, should be transferred to NGCP pursuant to the EPIRA. 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 the Company's RAB. However, considering that the ERC has not yet issued the Final Determination for the relevant Regulatory Period, there are still no approved capital expenditures amounts for the acquisition of these assets. As of June 30, 2021, the aggregate amount involved for the acquisition of these assets is approximately ₱3,493.1 million.

### **Permit Fees Cases**

There are six cases pending with the Supreme Court (which were consolidated and will be resolved in one decision) involving ERC's imposition of certain fees in relation to approved various CAPEX projects. The issue involved in these cases is whether or not NGCP is liable to pay various types of fees in view of the Franchise, which imposes only a franchise tax in lieu of all other types of fees, taxes, and charges. The resolution of these cases may not have a material adverse impact on NGCP's revenue, particularly because the ERC considers Permit Fees as part of the capital expense in NGCP's Final Determination. NGCP has paid these permit fees under protest in the aggregate amount of ₱38.3 million. The Company has already obtained favorable decisions from the Court of Appeals on July 27, 2012, June 11, 2014, and June 4, 2015, where the court declared NGCP exempt from payment of permit fees pursuant to the Franchise and these decisions are now subject of appeals and motions for reconsideration filed by the ERC with the Supreme Court.

### **Supervision and Regulation Fees; Metering Authority Fees**

Similar to Permit Fees Cases, the ERC is assessing NGCP certain Supervision and Regulation Fees in the amount of ₱468 million annually and Metering Authority Fees in the amount of ₱15 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 50% in case of delinquency; provided, further, that if the fees or any balance thereof are not paid within 60 days from the said date, the penalty shall be increased 1% for each month of delinquency thereafter. The Metering Authority Fee is being assessed based on the authority granted by ERC to NGCP as the WESM MSP. Both the Supervision and Regulatory Fees and Metering Authority Fees are computed at ₱1.0 for each ₱100.00 or fraction thereof, of the capital stock subscribed or paid. NGCP is paying these under protest on the ground that NGCP should be exempt from payment of these fees pursuant to the Franchise. The resolution of the 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 now pending before the Supreme Court for resolution.

### **Labor Cases**

As of June 30, 2021, there are 15 labor cases pending with the Court of Appeals and National Labor Relations Commission filed by former NGCP employees against NGCP in different areas/regions for illegal dismissal, with prayer for reinstatement, and payment of backwages and damages, and labor cases by employees of service providers in a service contract with NGCP wherein NGCP was impleaded as codefendant. The cases are in the stage of submission of the parties' Position Papers and Memoranda or submitted for resolution. 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.

### **CAPEX Applications**

As of June 30, 2021, there are 13 NGCP CAPEX Applications pending for approval with the ERC and other CAPEX applications that were previously approved by the ERC still have pending motions for reconsideration on permit fees imposed. While NGCP paid under protest the permit fees imposed for all the approved CAPEX applications, NGCP sought the ERC's reconsideration on the imposition of said fee considering that under the Franchise, it is exempt from payment of fees and other charges in lieu of the franchise tax it pays to government. 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.

Similar with the pending cases with the Supreme Court on Permit Fees, the resolution by the ERC of these motions may not have a material adverse impact on NGCP's revenue, particularly because the ERC considers Permit Fees as part of the capital expense in NGCP's Final Determination

#### **ERC Petition to Extend Period for the Listing of the Shares**

On November 13, 2018, NGCP filed its "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 prescribed in the Franchise to make a public offering of 20% of NGCP's outstanding capital stock. In its Decision dated April 17, 2020, the ERC denied NGCP's Petition and directed NGCP to commence immediately the process of public listing pursuant to the Franchise and to fully comply within six months from receipt of the Decision. NGCP filed a Motion for Reconsideration of the ERC's Decision, citing the difficulties in completing such an offering during the COVID-19 pandemic. On May 14, 2021, the ERC issued an Order directing NGCP to complete the initial public offering within six months from notice. NGCP then filed a Motion for Clarification (of the Order dated May 14, 2021), praying for the ERC to clarify the relevant part of the dispositive portion of the May 14, 2021 Order, to allow for listing on the PSE (as an alternative mode of compliance with the public offering requirement for NGCP as expressly provided under Section 8 of Republic Act No. 9511, the Franchise) "of any company which directly or indirectly owns or controls at least 30% of the outstanding shares of stock of [NGCP]", which can be achieved through the share swap and follow-on offering of 20% of SGP's shares.

The ERC resolved the Motion for Clarification in its Order dated August 11, 2021 ("**August 11 Order**"), which states that "NGCP can undertake public listing or in substitution submit proof of the listing of any company in the PSE which owns or controls at least 30% of its outstanding capital stock." The August 11 Order further states, among other things, that: (i) "NGCP's compliance with dispersal of ownership requirement will be determined based on Section 8 of R.A. No. 9511"; (ii) the ERC's Order dated May 14, 2021 "should not be taken as [dis]allowing or prohibiting any mode of ownership dispersal allowed under the law to be undertaken by NGCP"; and (iii) the six-month period provided in the ERC Order remains the same, "thus, the 14 November 2021 deadline set forth in the [ERC Order of May 14, 2021] is maintained.

## DESCRIPTION OF PROPERTY

As of the date of this Prospectus, NGCP owns several parcels of land located in various provinces, cities and municipalities all over the Philippines, having an approximate land area of 475.15 hectares, and a total of 9,951 right of way grants for its transmission lines.

A total of 286 parcels of land or approximately 60.91 hectares have been titled in the name of NGCP, while around 1,178 parcels of land or approximately 414.24 hectares are pending registration in favor of NGCP, as of the date of this Prospectus.

The properties of NGCP are in good condition, ordinary wear and tear excepted. None of these properties are used as collateral for NGCP's liabilities.

SGP, on the other hand, does not own any property such as real estate, plant, equipment, mines, patents and the like. It also does not intend to acquire any real property in the next 12 months. In addition, SGP does not lease any property.

NGCP leases properties for its business offices and other purposes in connection with its operations. The list of such leased properties is included as Appendix 1 of this Prospectus.

There are no liens from attachment or encumbrance over the properties of SGP and NGCP, other than, with respect to NGCP's land assets, liens and encumbrances arising by operation of law as provided in Section 44 (*statutory liens affecting title*), Section 46 (*general incidents of registered land*), and Section 50 (*subdivision and consolidation plans*) of the Property Registration Decree (Presidential Decree No. 1529, series of 1978). There are waterways within some of NGCP's lands and these are subject to the three-meter easement along the margins of the waterways as required under Article 638 of the Civil Code of the Philippines. NGCP has lands located near the Clark International Airport and the Bicol International Airport and any construction within these lands are subject to height restrictions or limitations as determined by the Civil Aviation Authority of the Philippines.

## DESCRIPTION OF PERMITS AND LICENSES

The Group has all the applicable material permits and licenses necessary to conduct their respective business and operations as currently conducted, and such permits and licenses are valid, subsisting, or otherwise pending renewal. Moreover, the Group has adopted processes to strengthen its compliance culture in order to manage and ensure that all requirements, permits and approvals are obtained in a timely manner, including retaining legal counsel to ensure continued compliance with applicable laws and regulations affecting its operations.

See “*Risk Factors—Risks Relating to NGCP and its Operations—NGCP is subject to significant and extensive government regulation and supervision, and the failure to obtain and maintain regulatory licenses and permits could materially and adversely affect the Company’s business, results of operations, financial condition and prospects*” on page 42.

The Group has all the material permits and licenses necessary for its business as currently conducted, which are valid and subsisting as of the date of this Prospectus, as confirmed by the law firm of Poblador Reyes Bautista Law Offices in a legal opinion dated August 12, 2021. In respect of those permits and licenses pending renewal, these are expected to be obtained in the ordinary course.

The list of material permits and licenses necessary for each of SGP, the Intermediate Holding Companies and NGCP to operate is included as Appendix 2 of this Prospectus.

## MATERIAL AGREEMENTS

### Material Agreements of Synergy

#### *Shared Services Agreement*

On January 1, 2015, the Issuer entered into a Shared Services Agreement with Monte Oro and Calaca for a period of three years. Under this agreement, the Issuer shall render monthly management consulting and financial advisory services and, in consideration of the services rendered, the Issuer receives a monthly management fee of ₱300,000 from each entity.

On March 22, 2017, the Shared Services Agreement was amended to extend the period to December 31, 2018. On February 26, 2018, the Shared Services Agreement was further amended extending the period up to December 31, 2021. The Shared Services Agreement was superseded by a Revised Shared Services Agreement entered into by the Issuer on January 1, 2019, increasing the monthly management fee to ₱500,000 for a period of three years commencing January 1, 2019, unless otherwise cancelled or extended by mutual agreement of the related parties and the Issuer.

On January 22, 2020, the Shared Services Agreement was amended to include the one-time share of Monte Oro and Calaca in the professional fees incurred by the Issuer in relation to the ongoing processing of share swap transactions amounting to a total of ₱16,506,190.

#### *Joint Control Agreement*

On September 1, 2010, Mr. Henry T. Sy Jr. and Mr. Robert G. Coyiuto, Jr. (the “**Principal Shareholders**”) entered into a memorandum of understanding (the “**Joint Control Agreement**”) setting out their mutual obligations and undertakings in respect to the governance of NGCP as the joint controlling shareholders of NGCP. In particular, the Joint Control Agreement provided for the implementation of the consolidation of ownership and control by the Principal Shareholders in NGCP, through SGP, which was completed via the Share Swap transaction described elsewhere in this Prospectus.

In addition, the Principal Shareholders agreed under the Joint Control Agreement to consult and confer with one another prior to exercising their respective rights and taking any actions affecting the business, governance and operations of NGCP. This includes nominating members of the Board and appointing candidates to key management positions in NGCP, with a view of having a common set of nominees or candidates for these positions. Furthermore, the Principal Shareholders agreed to vote jointly on any corporate decision or action of NGCP requiring shareholder approval. Accordingly, each of Mr. Sy and Mr. Coyiuto shall exercise their respective rights as the indirect controlling shareholder of Monte Oro Grid and Calaca, respectively, so as to cause these companies to vote their respective shares in NGCP in accordance with the joint decision or instruction of the Principal Shareholders to the fullest extent allowed by applicable laws, in accordance with the Joint Control Agreement. In the event of any disagreements, the parties agree to amicably resolve this before referring any dispute to arbitration before the Philippine Dispute Resolution Center, Inc.

From the execution of the Joint Control Agreement, the Principal Shareholders have consistently adhered to the Joint Control Agreement and they expect to continue with their arrangement following the completion of the Offer.

#### *Deed of Exchange of Shares and Subscription Agreement*

Mr. Henry T. Sy, Jr., Mr. Robert G. Coyiuto, Jr. and the Issuer entered into a Deed of Exchange of Shares and Subscription Agreement on September 3, 2020, to document their agreement and respective obligations with respect to the Share Swap.

Under the terms of this agreement, the Issuer agreed to issue common shares in exchange for shares in OneTaipan and Pacifica21 at an issue price of ₱20.00 per share. Specifically, 2,050,200,000 common shares of the Issuer would be swapped with 86,430,000 common shares of OneTaipan legally and beneficially owned by Mr. Sy. Additionally, 2,050,200,000 common shares of the Issuer would be swapped with 871,000,000 common shares of Pacifica21 legally and beneficially owned by Mr. Coyiuto. The share swap was undertaken to formally consolidate Mr. Sy’s and Mr. Coyiuto’s ownership and control of NGCP through a common corporate structure given that Pacifica21 owns controlling shares in Calaca, which in turn owns 30% minus one share in NGCP.

One Taipan owns controlling shares in Monte Oro Grid Resources Corporation, which holds 30% plus one share in NGCP.

### ***Advances from Related Parties***

On October 20, 2020, the Issuer received advances from its two major shareholders amounting to a total of ₱250,051,483 to be used by the Issuer in relation to the implementation of the Share Swap. In particular, the advances were used to fund the payment of taxes, regulatory filing fees, advisory fees in connection with the implementation of the Share Swap.

These advances are payable on demand and non-interest bearing. On September 23, 2021, the Issuer paid such advances from its Principal Shareholders.

### **Material Agreements of NGCP**

#### ***Concession Agreement***

A Concession Agreement was entered into among PSALM, TRANSCO, and NGCP on February 28, 2008 for the construction, installation, financing, management, improvement, expansion, operation, maintenance, rehabilitation, repair, and refurbishment of the nationwide transmission and sub-transmission systems in the Philippines.

By virtue of Section 21 of Republic Act No. 9136, otherwise known as the Electric Power Industry Reform Act of 2001, and its Implementing Rules and Regulations, PSALM has selected the consortium of Monte Oro Grid Resources Corporation, Calaca High Power Corporation, and State Grid Corporation of China (collectively, the “Investors”), through open competitive bidding, for the award of a concession to construct, install, finance, manage, improve, expand, operate, maintain, rehabilitate, repair, and refurbish the transmission assets of TRANSCO. The Investors have established NGCP in accordance with the District Agreement dated December 12, 2007 and January 17, 2008 between PSALM and the Investors. On December 1, 2008, the Congress of the Philippines granted NGCP its license to operate and maintain the transmission systems of the Philippines as a public utility by virtue of the enactment of Republic Act No. 9511. The concession term formally began on January 15, 2009 for an initial term of twenty-five (25) years. The Concession Agreement requires PSALM and NGCP to meet within 30 days from the 20<sup>th</sup> anniversary or on January 15, 2029 to review NGCP’s performance of the agreement and to consider on what terms should the concession period be extended. However, the concession period shall not be extended beyond the fiftieth (50<sup>th</sup>) anniversary or on January 14, 2059, or for longer than the remaining term of NGCP’s franchise. NGCP’s franchise is effective until December 19, 2058.

NGCP paid US\$3.95 billion to acquire the concession, with 25% of US\$3.95 billion paid upfront and the remaining 75% balance payable semi-annually for 20 years. In July 2013, NGCP pre-paid ₱57,883 million of the semi-annual concession fees. With this payment, the remaining balance of the concession fee payable to PSALM stands at ₱54,319 million as of June 30, 2021.

Under the Concession Agreement, NGCP is granted, on an exclusive basis, the rights and responsibilities to (1) construct, install, finance, manage, improve, expand, operate, maintain, rehabilitate, repair, refurbish, and replace the transmission asset, save that with regard to the sub-transmission assets, its obligation shall only be to operate and maintain the sub-transmission assets which have not been disposed by TRANSCO; (2) prepare the Transmission Development Plan and to implement such projects in the plan as may be authorized by the ERC; (3) provide transmission service and enter into connection agreements with transmission customers; (4) procure such ancillary services as are necessary to support the safe and reliable operation of the transmission assets; (5) bill and collect from transmission customers for its own account such charges as it may lawfully demand; (6) collect the universal charge payable by end users and self-generating entities not connected to a distribution utility and remit the same to PSALM; and (7) carry on any related business.

TRANSCO, however, has retained ownership of, and leasehold interest in, or other rights *in rem* to any assets comprising the transmission grid or any other real property belonging to TRANSCO, including any proprietary interest in any of the transmission assets, documented property rights, and intellectual property rights.

The ERC regulates NGCP in carrying on the concession. However, the Concession Agreement does not in any way prejudice the powers of other governmental authorities, including the Congress of the Philippines, to regulate

NGCP nor be deemed to provide PSALM or TRANSCO with any such regulatory powers that are within the regulatory authority of the ERC.

### **Operation and Maintenance Agreements for Dedicated Point-to-Point Limited Transmission Facilities**

On July 17, 2019, NGCP entered into an agreement with the Camiguin Electric Cooperative, Inc. (“CAMELCO”), a distribution utility, for the operation and maintenance of the Balingasag-Kinoguitan 69KV Line. The Balingasag-Kinoguitan 69KV Line refers to sub-transmission facilities within the franchise area of CAMELCO in Camiguin Island in Northern Mindanao that were sold by TRANSCO to CAMELCO pursuant to Section 8 of the Electric Power Industry Reform Act, as approved by the ERC on April 11, 2011.

The agreement has a term of five years, taking effect on March 1, 2019 and expiring on February 28, 2024. It is renewable for a maximum period of one year upon mutual agreement of the parties.

On May 31, 2018, NGCP entered into an agreement with FDC Misamis Power Corporation (“FDC”), a generation company, for the operation and maintenance of transmission facilities for use in its coal-fired power plant located in Misamis Oriental. The operation and maintenance of the facilities by NGCP was a condition imposed by the ERC in approving the development of the transmission facility on March 22, 2016. The agreement has a term of four (4) years, taking effect on January 1, 2018 and expiring on December 31, 2021. NGCP charges FDC for preventive maintenance and corrective maintenance services.

On May 8, 2019, NGCP entered into an agreement with Sarangani Energy Corporation (“SECO”), a generation company, for the operation and maintenance of transmission facilities for use of its coal-fired power plant located in Sarangani. The operation and maintenance of the facilities by NGCP was a condition imposed by the ERC in approving the development of the transmission facility on January 27, 2016. The agreement has a term of five years, taking effect on December 26, 2018 and expiring on December 25, 2023. NGCP charges SECO for preventive maintenance and corrective maintenance services.

### **Transmission Service Agreements**

NGCP entered into Transmission Service Agreements (“TSA”) with (a) “Load Customers” or those that take electricity off the Grid, which includes distribution utilities and end-users, and (b) “Generation Customers” or those that inject electricity into the grid distribution utilities (collectively, “Transmission Customers”), for the provision of transmission services.

TSAs are governed by the OATS Rules, the Philippine Grid Code, and other relevant regulations that may be promulgated by the proper government agencies. The form of TSAs follows the pro-forma Service Agreement prescribed under the OATS Rules. TSAs are not subject to ERC approval, unless it involves a new connection to the Grid by an end-user. TSAs generally have a term of five years. The top 10 Transmission Customers of NGCP based on 2020 revenue are the following:

- Manila Electric Company
- Davao Light & Power Company
- Visayan Electric Company
- Batangas II Electric Cooperative, Inc.
- South Cotabato II Electric Cooperative, Inc.
- Central Negros Electric Cooperative, Inc.
- Zamboanga City Electric Cooperative, Inc.
- San Fernando Electric Light & Power
- Pampanga II Electric Cooperative, Inc.
- Clark Electric Distribution Corporation

### **Connection Agreements**

NGCP also entered into Connection Agreements (“CA”) with Transmission Customers, for the connection of the customer’s system or equipment to a new connection point in the Grid. CAs are governed by the OATS Rules, the Philippine Grid Code, and other relevant regulations that may be promulgated by the proper government agencies. CAs generally have a term of ten (10) years.

### **Ancillary Services Procurement Agreement**

NGCP maintains Ancillary Services Procurement Agreement with qualified generation companies pursuant to its responsibility as the system operator to determine, acquire, and dispatch the capacity needed to supply the required grid ancillary services. Ancillary Services refer to support services necessary to support the transmission capacity and energy that are essential in maintaining power quality and the reliability and security of the Grid.

Ancillary Service Providers are required to provide ancillary services in a manner consistent with the Grid Code, the WESM Rules and applicable WESM Manuals and the Revised OATS Rules. Specifications for ancillary services are provided for under the Ancillary Services Procurement Plan, which provide the detailed descriptions of ancillary services, minimum technical requirements, tests to verify minimum technical requirements, and the quantity or level of ancillary services required.

When contracting for the provision of Ancillary Services, the NGCP is required to use the template Ancillary Services Procurement Agreement, as approved by the ERC. Ancillary Services Procurement Agreements generally have a term of five years, commencing from provisional approval or final approval by the ERC.

### ***Credit/ Financing Agreements***

NGCP has entered into unsecured financing agreements with various local and international banks for working capital purposes and to fund its prepayment of concession fees to PSALM.

See “*Management’s Discussion and Analysis of Financial Condition and Results of Operations—Liquidity and Capital Resources—Indebtedness.*” for further information on indebtedness of the Group.

## REGULATORY AND ENVIRONMENTAL MATTERS

*The following description is a summary of certain sector specific laws and regulations in the Philippines, which are applicable to the Company. The information detailed in this chapter has been obtained from publications available in the public domain. The regulations set out below may not be exhaustive and are only intended to provide general information to the investors and are neither designed nor intended to substitute for professional legal advice or a detailed review of the relevant laws and regulations.*

### **REPUBLIC ACT NO. 9511, FRANCHISE OF NGCP**

On December 1, 2008, NGCP was granted a franchise under Republic Act No. 9511 “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 the 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 (the “**Franchise**”). The Franchise requires NGCP to hold the national, provincial and other local governments of the Philippines harmless from all claims, accounts, demands or actions arising out of accidents or injuries, whether to property or persons, caused by the construction, installation, operation and maintenance of the transmission system and the Grid.

NGCP’s Franchise provides that it shall pay “a franchise tax equivalent to 3% of all gross receipts derived by [NGCP] from its operation under th[e] franchise.” This franchise tax is “in lieu of income tax and any and all taxes, duties, fees and charges of any kind, nature or description levied, established or collected by any authority whatsoever, local or national, on its franchise, rights, privileges, receipts, revenues and profits, and on properties used in connection with its franchise.”

On January 15, 2009, the PSALM formally turned over the 25-year concession to operate the Grid from TRANSCO to NGCP.

Under NGCP’s Franchise, NGCP would continue to operate and maintain the sub-transmission systems which have not been disposed by TRANSCO. NGCP is also authorized to engage in ancillary business and any related business which maximizes utilization of its assets such as, but not limited to, telecommunications system, pursuant to Section 20 of the EPIRA.

NGCP’s Franchise is for a term of 50 years from the date of effectivity, subject to the condition that the franchise shall be subject to amendment, alteration, or repeal by Congress when the common good so requires. The Franchise took effect on December 20, 2008. During the period of operation of the NGCP’s franchise, at least 60% of its capital should be owned by citizens of the Philippines. NGCP is required to comply with the Philippine Constitution and applicable laws pertaining to foreign ownership and management of public utilities.

The transmission system, Grid, and related facilities maintained, operated or managed by NGCP, its successors or assigns, shall be operated and maintained at all times in accordance with industry standards, and it shall be the duty of NGCP, its successors or assigns, whenever required to do so by the ERC or its legal successor, to modify, improve and change such system or facilities in such manner and to such extent as the progress in science and improvements in the electric power services may reasonably require.

NGCP is also authorized under its franchise to exercise the right of eminent domain insofar as it may be reasonably necessary for the construction, expansion, and efficient maintenance and operation of the transmission system and Grid and the efficient operation and maintenance of the sub-transmission systems. NGCP may acquire such private property as is actually necessary for the realization of the purposes for which its franchise is granted, provided that the applicable law on eminent domain shall be observed, particularly, the prerequisites of taking of possession and the determination and payment of just compensation.

The franchise provides that NGCP shall not lease, transfer, grant the usufruct of, or sell its franchise or the rights and privileges acquired under said franchise to any person, firm, company or other commercial or legal entity, nor merge with any other company or entity, nor should its controlling interest be transferred, whether in whole or in part, and whether simultaneously or contemporaneously, to any person, firm, company or entity without the prior approval of the Congress of the Philippines. The foregoing limitation on the transfer of NGCP’s controlling interest is not without exception. For instance, the limitation does not apply to the transfer or issuance of shares of stock in the implementation of the requirement for NGCP’s dispersal of ownership pursuant to its franchise.

The Franchise also grants the President of the Philippines the right, in times of war, rebellion, public peril, calamity, emergency, disaster, or disturbance of peace and order, to temporarily take over and operate the transmission system, and/or the sub-transmission systems operated and maintained by NGCP, to temporarily suspend the operation of any portion thereof, or the facility in the interest of public safety, security and public welfare, or to authorize the temporary use and operation thereof by any agency of the government upon due compensation to NGCP for the use of the transmission system, and sub-transmission systems and any portion thereof.

#### *Public Ownership Requirement*

NGCP is required to list its shares, subject to the requirements of the Philippine 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 be provided by law within ten (10) years from the commencement of its operations. The Franchise allows NGCP to comply with the public ownership requirement through 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. In the event compliance with the public ownership requirement is not met, the ERC may, upon application of NGCP, and after notice and hearing, allow a reasonable extension of the period within which NGCP should list its shares of stock if the market condition is not suitable for such listing.

#### *Cross-Ownership Restriction*

NGCP or any of its stockholders, directors or officers (or any of their relatives within the fourth civil degree of consanguinity and their respective spouses) are not allowed to hold any shares of stock in any Power Industry Player. In addition, a Power Industry Player or its stockholders, directors or officers (or any of their relatives within the fourth civil degree of consanguinity and their respective spouses), are not allowed to hold any shares of stock in NGCP.

However, the foregoing cross-ownership prohibition shall not apply to a relative by blood or marriage, if such relative of any stockholder, director or officer of NGCP has no employment, consultancy, fiduciary, contractual, commercial or other economic relationship or interest in NGCP, or conversely, if such relative of any stockholder, director or officer of a Power Industry Player has no employment, consultancy, fiduciary, contractual, commercial or other economic relationship or interest in the Power Industry Player.

Moreover, as long as SGP is listed on the PSE and owns shares of, or controls, NGCP, ownership of shares in SGP is subject to the Cross-Ownership Rule which provides that: (i) a Power Industry Player or its stockholders, directors or officers, or any of their relatives within the fourth civil degree of consanguinity (except if such relative, whether by blood or marriage, has no employment, consultancy, fiduciary, contractual, commercial or other economic relationship or interest in such Power Industry Player) and their respective spouses, shall not be allowed to own more than 1% of the total outstanding shares of SGP, provided, however, that a stockholder of a PSE-listed Power Industry Player owning not more than one per centum (1%) of the total outstanding shares of the same Power Industry Player shall not be subject to the foregoing restriction; and (ii) a stockholder of SGP shall not own more than 1% of the shares of stock or equity interest in any Power Industry Player.

For purposes of the foregoing, a “**Power Industry Player**” means a generation company, distribution utility, or its respective subsidiary or affiliate, or other entity engaged in generating and supplying electricity specified by the ERC. An “affiliate” means any person which, alone or together with any other person, directly or indirectly, through one (1) or more intermediaries, controls, is controlled by, or is under common control, with another person. As used herein, “control” shall mean the power to direct or cause the direction of the management policies of a person by contract, agency or otherwise.

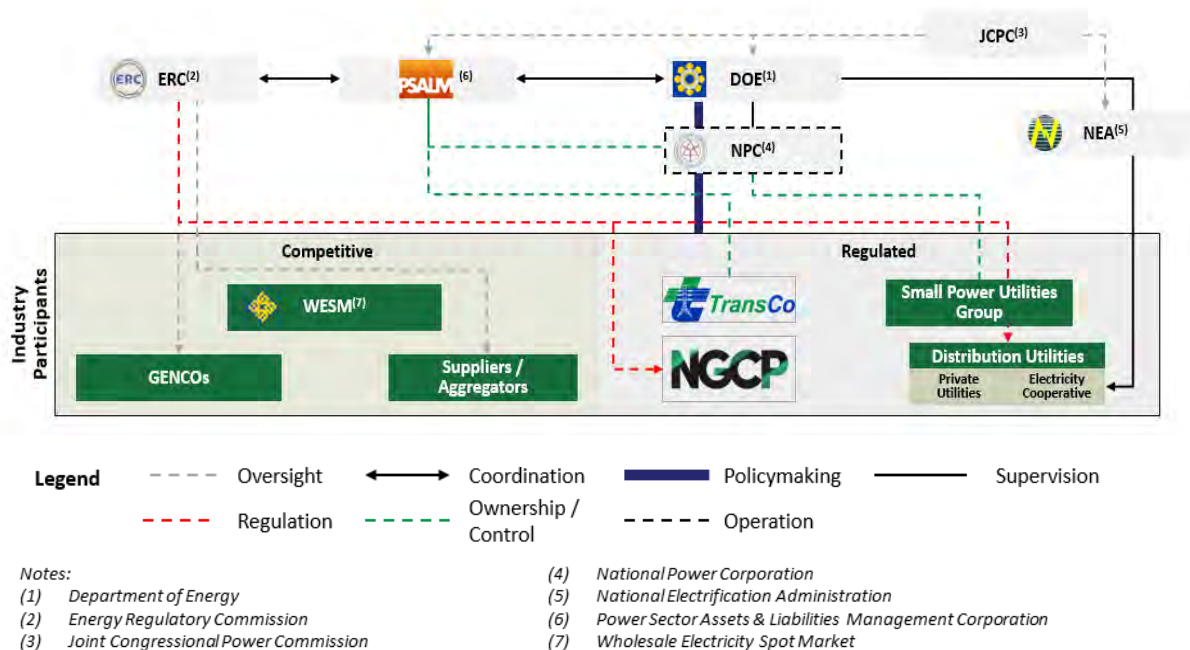
SGP has amended its Articles of Incorporation to include a provision that any issuance or transfer of shares of SGP in violation of the foregoing restrictions shall be void, and no shares of stock of SGP issued or acquired in violation of such restrictions shall be recorded (or allowed to remain recorded) in the books of SGP, or allowed to vote or be entitled to representation at any stockholders’ meeting of the SGP, nor shall the holder of such shares of SGP be entitled to any of the rights of a stockholder of SGP, including the right to dividends, during the existence of such violation. SGP’s amended Articles of Incorporation containing the cross-ownership provision was submitted to the Philippine SEC for approval on September 28, 2021 and the Philippine SEC approved the amendment on October 6, 2021.

Any shares of stock issued or acquired in violation of the cross-ownership restriction shall not be allowed to vote or be entitled to representation at any stockholders' meeting of NGCP nor shall the holder of such shares be entitled to any of the rights of a stockholder of NGCP, including the right to dividends.

An investor purchasing the Offer Shares represents and warrants that it is compliant with the Cross-Ownership Rule under the Franchise and SGP's Articles of Incorporation.

## ORGANIZATION AND OPERATION OF THE POWER INDUSTRY

Republic Act No. 9136 or the EPIRA established a framework for the organization, operation and restructuring of the electric power industry, with the industry divided into four sectors: generation, transmission, distribution and supply. The following diagram shows the current structure of the electric power industry under the EPIRA.



Through the EPIRA, the Government instituted major reforms with the goal of fully privatizing all aspects of the power industry. The principal objectives of the EPIRA are:

- to ensure and accelerate the total electrification of the country;
- to ensure the quality, reliability, security and affordability of the supply of electric power;
- to ensure transparent and reasonable prices of electricity in a regime of free and fair competition and full public accountability to achieve greater operational and economic efficiency and enhance the competitiveness of Philippine products in the global market;
- to enhance the inflow of private capital and broaden the ownership base of the power generation, transmission and distribution sectors;
- to ensure fair and non-discriminatory treatment of public and private sector entities in the process of restructuring the electric power industry;
- to protect the public interest as it is affected by the rates and services of electric utilities and other providers of electric power;
- to assure socially and environmentally compatible energy sources and infrastructure;

- to promote the utilization of indigenous and new and renewable energy resources in power generation in order to reduce dependence on imported energy;
- to provide for an orderly and transparent privatization of the assets and liabilities of NPC;
- to establish a strong and purely independent regulatory body and system to ensure consumer protection and enhance the competitive operation of the electricity market; and
- to encourage the efficient use of energy and other modalities of demand side management.

With a view to implementing these objectives, the DOE, in consultation with the relevant Government agencies, electric power industry participants, non-Government organizations and electricity consumers, promulgated the Implementing Rules and Regulations (the “**IRR**”) of the EPIRA on February 27, 2002 (subsequently amended in 2007).

The IRR governs the relations between, and respective responsibilities of, the different electric power industry participants as well as the particular Governmental authorities involved in implementing the structural reforms in the industry, including, but not limited to, the DOE, NPC, NEA, ERC and PSALM.

### **Reorganization of the Electric Power Industry**

Of the many changes initiated by the EPIRA, of primary importance is the reorganization of the electric power industry by segregating the industry into four sectors: (i) the generation sector; (ii) the transmission sector; (iii) the distribution sector; and (iv) the supply sector. The goal is for the generation and supply sectors to be fully competitive and open, while the transmission sector will be a regulated common electricity carrier business and the distribution sector will be a regulated common carrier business requiring a national franchise, thus both the transmission and distribution sectors will be regulated as public utilities. Prior to the EPIRA, the industry was regulated as a whole, with no clear distinctions between and among the various sectors and/or services.

#### ***The Generation Sector***

Under the EPIRA, power generation per se is not a public utility operation. Thus, generation companies are not required to secure congressional franchises, and there are no restrictions on the ability of non-Filipinos to own and operate generation facilities. However, generation companies must obtain a certificate of compliance from the ERC, as well as health, safety and environmental clearances from appropriate Government agencies under existing laws. Furthermore, PPAs and PSAs between generation companies and distribution utilities are subject to the review and approval of the ERC. Generation companies are also subject to the rules and regulations of the ERC on abuse of market power and anticompetitive behavior. In particular, the ERC has the authority to impose price controls, issue injunctions, require divestment of excess profits and impose fines and penalties for violation of the EPIRA and the IRR policy on market power abuse, cross-ownership and anti-competitive behavior.

The goal of the EPIRA is for the generation sector to be open and competitive, while the private sector is expected to take the lead in introducing additional generation capacity. Generation companies will compete either for bilateral contracts with various RESs, electric cooperatives and private distribution utilities, or through spot sale transactions in the WESM. With the implementation of RCOA in Luzon and Visayas, generation companies are already able to sell electricity to eligible end-users. “Open Access” is defined under the IRR as the system of allowing any qualified person the use of electric power transmission and distribution systems; while “Retail Competition” is defined as the provision of electricity to a contestable market (which, under prevailing regulations, refer to electricity end-users with monthly average peak demand of at least 500 KW) by persons licensed by the ERC to engage in the business of supplying electricity end-users through Open Access.

Recovery by distribution utilities of their purchased power cost is subject to review by the ERC to determine reasonableness of the cost and to ensure that the distribution utilities do not earn any revenue therefrom. With the commencement of the RCOA, generation rates, except those intended for such end-users who may not choose their supplier of electricity (the “**Captive Market**”), ceased to be regulated.

The generation sector converts fuel and other forms of energy into electricity. It consists of the following: (i) NPC-owned-and-operated generation facilities; (ii) NPC-owned plants, which consist of plants operated by IPPs, as well as IPP-owned-and-operated plants, all of which supply electricity to NPC; and (iii) IPP-owned-and-operated plants that supply electricity to customers other than NPC.

Under the EPIRA, generation companies are allowed to sell electricity to distribution utilities or to RESs through either bilateral contracts or the WESM as described below. With the implementation of RCOA on December 26, 2013, as supplemented by DOE Department Circular No. DC2015-06-0010, generation companies may likewise sell electricity to eligible end-users with an average monthly peak demand of 750 KW and certified by the ERC to be contestable customers. In 2016, the ERC issued the implementing rules governing the issuance and renewal of licenses to RESs and the rules governing contestability of qualified end-users (collectively, the “**ERC RES Rules**”). However, in February 2017, the Philippine Supreme Court, acting on the petition filed by certain entities, issued a temporary restraining order enjoining the DOE and the ERC from implementing the rules and regulations implementing the RCOA, including the ERC RES Rules.

As of the date of this Offering Circular, the temporary restraining order has not been lifted. In response to the temporary restraining order, and to provide guidance to relevant power industry players, the DOE issued DC2017-12-0013 and DC2017-12-0014 encouraging eligible contestable customers to voluntarily participate in RCOA.

Subsequently, the DOE issued DC 2019-07-11 (Amending Various Issuances on the Implementation of the RCOA), which provides that contestable customers may voluntarily register as a trading participant in the WESM and that it shall source its electricity supply requirements from ERC-licensed/authorized suppliers.

The generation sector must observe the Market Share Limitations set in the EPIRA which states that no generation company or related group is allowed to own more than 30% of the installed generating capacity of the Luzon, Visayas or Mindanao Grids and/or 25% of the national installed generating capacity. Also, no generation company associated with a distribution utility may supply more than 50% of the distribution utility’s total demand under bilateral contracts, without prejudice to the bilateral contracts entered into prior to the effectivity of the said Act.

Historically, the generation sector has been dominated by NPC. To introduce and foster competition in the sector, and, more importantly, to lessen the debt of NPC, the EPIRA mandates the total privatization of the generation assets and IPP contracts of NPC, which exclude the assets devoted to missionary electrification through the small power utilities group of NPC. NPC is directed to transfer ownership of all the assets for privatization to a separate entity, PSALM, which is specially tasked to manage the privatization. Beginning early 2004, PSALM has been conducting public bidding for the generation facilities owned by NPC. Based on latest available data from PSALM as of March 31, 2021, PSALM has privatized 31 operating/generating power facilities and four decommissioned power facilities, with a total gross capacity of 4,600.03 MW. Moreover, additional seven power plants with total gross capacity of over 3,355 MW were privatized through IPPA contracts, and five decommissioned power facilities. Section 47(j) of the EPIRA prohibits NPC from incurring any new obligations to purchase power through bilateral contracts with generation companies or other suppliers. Also, NPC is only allowed to generate and sell electricity from generating assets and IPP contracts that have not been disposed of by PSALM.

Generation companies which are not publicly listed are required to offer and sell to the public a portion of not less than 15% of their common shares of stock. Under prevailing regulations, any offer of common shares of stock for sale to the public through any of the following modes shall be deemed as public offering:

- listing in the PSE;
- a public offering undertaken in accordance with the Securities Regulation Code and its implementing rules and regulations; and
- listing in any accredited stock exchange or direct offer of a portion of registered enterprises’ capital stock to the public and/or their employees, when deemed feasible and desirable by the BOI.

On February 16, 2021, the ERC issued Resolution No. 03, series of 2021, dated November 11, 2020 entitled “A Resolution Adopting the Revised Guidelines for the Financial Capability Standards of Generation Companies” (the “**Revised Financial Guidelines**”). The Revised Financial Guidelines apply to all generation companies including IPPAs, except those which own only generation facilities exclusively for its own consumption or unless otherwise exempted by any law or statute. Under the Revised Financial Guidelines, a generation company is required, among others, to meet a minimum annual debt service capability ratio of 1.25x throughout the period covered by its ERC certificate of compliance, provided that if its financial or loan agreements require a higher debt service capability ratio, then such higher ratio shall serve as its minimum requirement. A generation company performing below the benchmark is required to submit its program to comply, setting forth the specific activities to be undertaken in order to meet the financial capability benchmark, within 60 days from receipt of an ERC directive. A generation company that fails to comply with the requirements set forth under the Revised Financial

Guidelines shall be subject to imposition of fines and penalties. In addition, non-compliance with financial capability standards may result in the disclosure by the ERC of such fact, together with any mitigating or aggravating circumstances related thereto, via periodic bulletins.

### *The Transmission Sector*

Pursuant to the EPIRA, NPC has transferred its transmission and sub-transmission assets to TRANSCO, which was created pursuant to the EPIRA to assume, among other functions, the electrical transmission function of the NPC. The principal function of TRANSCO is to ensure and maintain the reliability, adequacy, security, stability and integrity of the nationwide electrical grid in accordance with the Philippine Grid Code (“**Grid Code**”). TRANSCO is also mandated to provide open and non-discriminatory access to its transmission system to all electricity users.

The transmission of electricity through the Grid is subject to transmission wheeling charges. As the transmission of electric power is a regulated common carrier business, TRANSCO’s transmission wheeling charges are subject to regulation and approval by the ERC.

The EPIRA also requires the privatization of TRANSCO through an outright sale of, or the grant of, a concession over the transmission assets while the sub-transmission assets of TRANSCO are to be offered for sale to qualified distribution utilities. In December 2007, NGCP, comprising a consortium of Monte Oro Grid Resources, Calaca High Power Corporation and State Grid Corporation of China, won the concession contract to operate, maintain and expand the TRANSCO assets with a bid of U.S.\$3.95 billion. On January 15, 2009, NGCP was officially granted the authority to operate the sole transmission system of the country pursuant to a legislative franchise granted by the Philippine Congress under Republic Act No. 9511.

### *The Distribution Sector*

The distribution of electric power to end-users may be undertaken by private distribution utilities, cooperatives, local Government units presently undertaking this function, and other duly authorized entities, subject to regulation by the ERC. The distribution business is a regulated public utility business requiring a franchise from the Philippine congress, although franchises relating to electric cooperatives remained under the jurisdiction of the NEA until the end of 2006. All distribution utilities are also required to obtain a certificate of public convenience and necessity from the ERC to operate as public utilities. Based on the latest available data from the DOE, there are 152 distribution utilities, which includes 23 private distribution utilities, 6 LGU-owned utilities, two multi-purpose cooperatives, and 121 electric cooperatives in the Philippines.

They are also required to submit to the ERC a statement of their compliance with the technical specifications prescribed in the Philippine Distribution Code (“**Distribution Code**”) (which provides the rules and regulations for the operation and maintenance of distribution systems), the Distribution Services and Open Access Rules and the performance standards set out in the IRR of the EPIRA.

The distribution sector is regulated by the ERC, with distribution wheeling charges, as well as connection fees from its consumers, subject to ERC approval. The retail rate imposed by distribution utilities for the supply of electricity to its captive consumers is also subject to ERC approval. In addition, as a result of the policy of the Government in promoting free competition and Open Access, distribution utilities are now required to provide universal and non-discriminatory access to their systems within their respective franchise areas following commencement of the RCOA.

The Distribution Code establishes the basic rules and procedures that govern the operation, maintenance, development, connection and use of the electric distribution systems in the Philippines. The Distribution Code defines the technical aspects of the working relationship between the distributors and all the users of the distribution system, including distribution utilities, embedded generators and large customers. All such electric power industry participants in distribution system operations are required to comply with the provisions of the Distribution Code as promulgated and enforced by the ERC.

To ensure the safe, reliable and efficient operation of distribution systems in the Philippines, the Distribution Code provides for, among others, the following regulations:

- technical, design and operational criteria and procedures to be complied with by any user who is connected or seeking connection to a distribution system;

- performance and safety standards for the operation of distribution systems applicable to distributors and suppliers; and
- other matters relating to the planning, development, management, operation and maintenance of distribution systems.

### ***The Supply Sector***

The supply of electricity refers to the sale of electricity directly to end-users. The supply function used to be undertaken largely by franchised distribution utilities. However, with the commencement of the RCOA, the supply function has become competitive. The retail supply business is not considered a public utility operation and suppliers are not required to obtain franchises. However, the supply of electricity to a market of end-users who have a choice on their supplier of electricity is considered a business affected with public interest. As such, the EPIRA requires all RESs to obtain a license from the ERC and they are subject to the rules and regulations of the ERC on the abuse of market power and other anti-competitive or discriminatory behavior.

A RES may only sell up to 50% of its total capacity to all of its end-user affiliates.

With the RCOA already implemented, a RES license will allow a generation company to enter into retail electricity supply agreements with contestable customers. This will encourage competition at the retail level and it is planned that retail competition will gradually increase over time, provided that supply companies are sufficiently creditworthy to be suitable offtakers for generation companies.

The following table summarizes the power supply and demand highlights in the Philippines for 2020 based on data from the DOE:

<b>Grid</b>	<b>Installed capacity (MW)</b>	<b>Dependable capacity (MW)</b>	<b>Peak demand (MW)</b>
Luzon.....	17,840	16,010	11,103
Visayas .....	3,863	3,369	2,201
Mindanao.....	4,548	4,031	1,978
Philippines .....	26,250	23,410	15,282

### **Role of the ERC**

The ERC is the independent, quasi-judicial regulatory body created under the EPIRA that replaced the Energy Regulatory Board. The ERC plays a significant role in the restructured industry environment, consisting of, among others, promoting competition, encouraging market development, ensuring consumer choice and penalizing abuse of market power by industry participants.

Among the primary powers and functions of the ERC are:

- to determine, fix and approve, after conducting public hearings, transmission and distribution wheeling charges and retail rates and to fix and regulate the rates and charges to be imposed by distribution utilities on their captive end-users, as well as the universal charge to be imposed on all electricity end-users, including self-generating entities;
- to grant, revoke, review or modify the certificates of compliance required of generation companies and the licenses required of suppliers of electricity in the contestable market;
- to enforce the Grid Code and Distribution Code, which shall include performance standards, the minimum financial capability standards, and other terms and conditions for access to and use of transmission and distribution facilities;
- to enforce the rules and regulations governing the operations of the WESM and the activities of the WESM operator and other WESM participants to ensure a greater supply and rational pricing of electricity;

- to ensure that the electric power industry participants and NPC functionally and structurally unbundled their respective business activities and rates and to determine the levels of cross-subsidies in the existing and retail rates until the same is removed in accordance with the different sectors;
- to set a lifeline rate for marginalized end-users;
- to promulgate rules and regulations prescribing the qualifications of suppliers which shall include, among others, their technical and financial capability and creditworthiness;
- to determine the electricity end-users comprising the contestable and Captive Markets;
- to fix user fees to be charged by TRANSCO/NGCP for ancillary services to all electric power industry participants or self-generating entities connected to the Grid;
- to monitor and adopt measures to discourage or penalize abuse of market power, cartelization and any anticompetitive or discriminatory behavior by any electric power industry participant;
- to review and approve the terms and conditions of service of TRANSCO/NGCP and any distribution utility or any changes therein;
- to perform such other regulatory functions as are appropriate and necessary in order to ensure the successful restructuring and modernization of the electric power industry; and
- to have original and exclusive jurisdiction over all cases that involve the contesting of rates, fees, fines and penalties imposed in the exercise of its powers, functions and responsibilities and over all cases involving disputes between and among participants or players in the energy industry relating to the foregoing powers, functions and responsibilities except cases which involve abuse of market power, cartelization and any anticompetitive or discriminatory behavior by any electric power industry participant.

### **Role of the DOE**

In accordance with its mandate to supervise the restructuring of the electric power industry, the DOE exercises, among others, the following functions:

- preparation and annual updating of the Philippine Energy Plan and the Philippine Power Development Program, and thereafter integrate the latter into the former;
- ensuring the reliability, quality and security of the supply of electric power;
- exercise of supervision and control over all Government activities pertaining to energy projects;
- encouragement of private investment in the power industry and promotion of the development of indigenous and renewable energy sources for power generation;
- facilitation of reforms in the structure and operation of distribution utilities for greater efficiency and lower costs;
- promotion of a system of incentives to encourage industry participants, including new generating companies and end-users, to provide adequate and reliable electric supply;
- education of the public (in coordination with NPC, ERC, NEA and the Philippine Information Agency) on the restructuring of the industry and the privatization of NPC assets; and
- establishment of the WESM in cooperation with electric power industry participants, and formulating rules governing its operations.

## **Role of the Joint Congressional Energy Commission**

The Joint Congressional Energy Commission created pursuant to the EPIRA consists of 14 members selected from the members of the Philippine senate and house of representatives. Its responsibilities and functions include, among others, the following:

- monitoring and ensuring the proper implementation of the EPIRA;
- endorsement of the initial privatization plan of PSALM for approval by the President of the Philippines;
- ensuring transparency in the public bidding procedures adopted for the privatization of the generation and transmission assets of NPC;
- evaluation of the adherence of industry participants to the objectives and timelines under the EPIRA; and
- determination of inherent weaknesses in the EPIRA and recommend necessary remedial legislation or executive measures.

## **Competitive Market Devices**

### ***WESM***

The EPIRA mandates the establishment of the WESM, which is a pre-condition for the implementation of the RCOA, within one year from its effectivity. The WESM provides a venue whereby generators may sell power, and at the same time, suppliers and wholesale consumers can purchase electricity where no bilateral contract exists between the two.

The rules and regulations of WESM set the guidelines and standards for participation in the market, reflecting accepted economic principles and providing a level playing field for all electric power industry participants, and procedures for establishing the merit order dispatch for each time (hourly) trading period. These rules also provide for a mechanism for setting electricity prices that are not covered by bilateral contracts between electricity buyers and sellers.

On November 18, 2003, upon the initiative of the DOE, the PEMC was incorporated as a non-stock, non-profit corporation with membership comprising an equitable representation of electricity industry participants and chaired by the DOE. The PEMC acts as the autonomous market group operator and the governing arm of the WESM and was tasked to undertake the preparatory work for the establishment of the WESM, pursuant to Section 30 of the EPIRA and in accordance with the WESM Rules. Its primary purpose is to establish, maintain, operate and govern an efficient, competitive, transparent and reliable market for the wholesale purchase of electricity and ancillary services in the Philippines in accordance with relevant laws, rules and regulations.

The WESM commercial operations in the Luzon Grid started on June 26, 2006. The Visayas Grid was integrated into the WESM on December 26, 2010.

As of June 2017, there were 260 wholesale membership participants and 946 retail membership entities registered at the WESM based on its 2017 Annual Report.

The PEMC and the Independent Electricity Market Operator of the Philippines Inc. (“**IEMOP**”) have executed an operating agreement to formalize the transfer of all functions, assets and liabilities associated with market operations from the PEMC to the IEMOP effective September 26, 2018. With the signing of the operating agreement, the IEMOP took over the market operations of the WESM, a function that was previously performed by the PEMC. Republic Act No. 9136 requires the PEMC to divest itself of this function in favor of a separate entity that is independent of the market participants. To comply with the requirement, on February 6, 2018, the market participants and the DOE Secretary approved the transition plan calling for the formation of an independent market operator and the transfer of the market operation functions to it. The IEMOP is a non-stock, non-profit corporation led by a board of directors, all of whom are independents and do not have any interest or connection to the WESM participants, that was incorporated and organized to implement the plan. Beginning on September 26, 2018, the IEMOP has been running the electricity market and, among other things, managing the registration of market participants, receiving generation offers, announcing market prices, dispatching schedules

of the generation plants and handling billing, settlement and collections. Under the policy and regulatory oversight of the DOE and the ERC, the PEMC has remained as the governing body for the WESM to monitor compliance by the market participants with the market rules.

DOE recently amended the WESM Rules to, among others: (i) clarify the roles of PEMC as the governance arm of WESM and IEMOP as market operator, and the composition of their respective boards, (ii) include the system operator and market operator within the coverage of WESM Rules, (iii) require the market operator to report to the ERC, DOE, PCC and the PEMC any incidents of non-compliance by an WESM member, including any potential anti-competitive behavior, and (iv) establish the several committees of PEMC, including the WESM Compliance Committee to monitor compliance by IEMOP and system operator, and oversee the investigations of breaches of the WESM rules and market manuals.

### ***WESM in Mindanao***

The DOE, through DOE Circular DC2017-05-0009, has declared the launch of the WESM in Mindanao. Similar to the operations in Luzon and Visayas, WESM's primary function is to be the venue for efficient scheduling, dispatch, and settlement of energy withdrawal and injections in the Mindanao Grid.

The PEMC has already initiated some preparatory activities in the upcoming WESM in Mindanao. During the first quarter of 2017, PEMC have conducted a series of public consultations. The WESM Trial Operation Program commenced on June 26, 2017 where its objective is to familiarize all Mindanao participants in the implementation of the WESM. Commercial operations of WESM in Mindanao will commence upon compliance with certain criteria set out in DOE Circular DC2017-05-0009. In an Advisory dated June 25, 2021, the DOE issued the guidance on the implementation of WESM Central Scheduling pending the commercial operation of WESM in Mindanao.

### ***RCOA***

The EPIRA likewise provides for a system of Open Access on transmission and distribution wires, whereby TRANSCO/NGCP and distribution utilities may not refuse the use of their wires by qualified persons, subject to the payment of distribution wheeling charges. The full commercial operation of RCOA in Luzon and Visayas commenced on June 26, 2013 with a total of 275 registered participants. Conditions for the commencement of such Open Access system are as follows:

- establishment of the WESM;
- approval of unbundled transmission and distribution wheeling charges;
- initial implementation of the cross-subsidy removal scheme;
- privatization of at least 70% of the total capacity of generating assets of NPC in Luzon and Visayas; and
- transfer of the management and control of at least 70% of the total energy output of power plants under contract with NPC to the IPPAs.

On June 6, 2011, pursuant to Resolution No. 10, Series of 2011, the ERC declared December 26, 2011 as the "Open Access Date" to mark the commencement of the full operations of the competitive retail electricity market in Luzon and Visayas. Accordingly, all electricity-end users with an average monthly peak demand of one MW for the 12 months preceding the Open Access Date, as certified by the ERC to be contestable customers, shall have the right to choose their own electricity suppliers.

To ensure smooth transition from the existing structure to RCOA, the ERC promulgated Resolution No. 16, Series of 2012, providing for a transition period from December 26, 2012 until June 25, 2013. However, the ERC effectively extended the transition period when it issued Resolution No. 11, Series of 2013, which allowed contestable customers to stay with their current distribution utility until December 25, 2013, or until such time that they were able to find a RES provided that it promptly informs the distribution utility of such fact. On June 19, 2015, the Department of Energy promulgated Department Circular No. DC2015-06-0010, which mandated contestable customers to secure their RSCs by June 25, 2016, including contestable customers with an average demand of 750 KW to 999 KW for the 12-month period preceding June 25, 2016.

With the implementation of the RCOA, the contestable markets (i.e., under prevailing regulations, electricity end-users with monthly average peak demand of at least 500 KW) may choose where to source their electric power requirements and can negotiate with suppliers for their electricity. Likewise, certain end-users will be allowed to directly source power through the WESM or by entering into contracts with generation companies. This will encourage competition at the retail level and it is anticipated that retail competition will gradually increase over time, provided that supply companies are sufficiently creditworthy to be suitable offtakers for generation companies.

With the implementation of the RCOA, certain contracts entered into by utilities and suppliers may potentially be stranded. Stranded contract cost refers to the excess of the contracted cost of electricity under eligible contracts of NPC over the actual selling price of the contracted energy output of such contracts in the market. Under the EPIRA, recovery of stranded contract cost may be allowed provided that such contracts were approved by the Energy Regulatory Board (now the ERC) as of December 31, 2000.

As of the date of this Offering Circular, the temporary restraining order has not been lifted. In response to the temporary restraining order, and to provide guidance to relevant power industry players, the DOE issued DC2017-12-0013 and DC2017-12-0014 encouraging eligible contestable customers to voluntarily participate in the RCOA.

Subsequently, the DOE issued DC 2019-07-11 (Amending Various Issuances on the Implementation of the RCOA), which provides that contestable customers may voluntarily register as a trading participant in the WESM and that it shall source its electricity supply requirements from ERC-licensed/authorized suppliers.

On December 28, 2020, the ERC issued Resolution No. 12, series of 2020 dated December 3, 2020 entitled "A Resolution Prescribing the Timeline for the Implementation of Retail Competition and Open Access (RCOA)". ERC Resolution No. 12, series of 2020, mandates that RCOA shall be effective in grids where the WESM is operational and a separate rule shall be issued for the implementation of RCOA in Mindanao. Further, all suppliers of electricity shall be licensed/authorized by the ERC to supply electricity in the competitive retail electricity market.

Under ERC Resolution No. 12, the coverage of the RCOA is expanded for end-users with an average monthly peak demand of at least 500kW in the preceding 12 months, on a voluntary basis, subject to the effectivity dates prescribed by ERC. Under ERC Resolution No. 12, qualified contestable customers, with existing electronic meters capable of recording and reading interval of time with built-in communication port for remote and manual data retrieval, shall be allowed to switch to the competitive retail electricity market starting February 26, 2021. Meanwhile, qualified contestable customers with existing electronic meters capable of recording and reading interval of time, but which would need to be enhanced with a communication port for remote and manual data removal, shall be allowed to switch to the competitive retail electricity market upon completion of installations of such enhancements until March 28, 2021.

#### ***Implementation of the Performance-Based Regulation ("PBR")***

The ERC issued the Rules for Setting Transmission Wheeling Rates (RTWR) that apply to the Transmission business. RTWR sets out the manner in which the new PBR rate-setting mechanism will be implemented. Following the directive of EPIRA requiring the ERC to adopt an internationally accepted rate setting methodology, PBR replaces the return-on-rate-base regulation that historically determined transmission charges of TRANSCO customers. Under the PBR, the transmission charges that NGCP can collect from customers over a five-year regulatory period will be set by reference to projected revenues determined through a building block approach of return on regulatory asset base, regulatory depreciation, operating expenditures, taxes and the efficiency of the transmission utility and the latter's capital, all of which are reviewed and approved by the ERC and used by the ERC to determine the efficiency factor of the transmission utility. For each year during the regulatory period, the transmission charge is adjusted upwards or downwards taking into consideration the efficiency factor of the utility set against changes in overall consumer prices in the Philippines. The ERC has also implemented a performance incentive scheme whereby annual rate adjustments under PBR will also take into consideration the ability of the utility to meet or exceed service performance targets set by the ERC, such as the average duration of power outages, the average time to provide connections to customers and the average time to respond to customer calls, with utilities being rewarded or penalized depending on their ability to meet these performance targets.

### ***Ancillary Services***

Under the EPIRA, NGCP has the obligation to ensure and maintain the reliability, adequacy, security, stability and integrity of the Grid in accordance with the performance standards for its operations and maintenance, as set forth in the Grid Code, and to adequately serve generation companies, distribution utilities and suppliers requiring transmission service and/or ancillary services through the transmission system.

In the performance of its functions as the Grid System Operator, NGCP requires ancillary services to ensure the power quality and stability of the Grid. Ancillary services, as defined in Section 4(b) of the EPIRA, are services necessary to support the transmission of capacity and energy from resources to loads while maintaining reliable operation of the transmission system in accordance with the good utility practice and the Grid Code. These are support services to provide frequency control and include Primary Reserve, Secondary Reserve, and Tertiary Reserve.

In order to maintain the security and integrity of the Grid, the system operator shall operate the Grid in such a manner as to provide adequate frequency control to achieve operations within frequency limits at all times. Achieving effective frequency control requires the following ancillary services (as described in the 2016 Philippine Grid Code) which are differentiated depending on their response time and sustainability: (i) Primary Reserve Ancillary Service (PRAS); (ii) Secondary Reserve Ancillary Service (SRAS); and (iii) Tertiary Reserve Ancillary Service (TRAS).

To implement and regulate the procurement of Ancillary Services, the ERC approved the Ancillary Services Procurement Plan (“**ASPP**”) and the Ancillary Services — Cost Recovery Mechanism (“**AS-CRM**”) on March 9, 2006 and October 3, 2007, respectively. Under the AS-CRM, NGCP secures Ancillary Services through the ASPA with qualified generation companies. For Ancillary Services arranged via the ASPA, the OATS Rules, the ASPP and the AS-CRM will be applied.

All Ancillary Services contracted by NGCP from qualified generators will be recovered through rates and charges from the generation customers, embedded generation customers and load customers, where applicable, subject to approval of the ERC.

ASPAs require ERC approval and these are generally for a term of five years.

### **Regulations relating to energy projects of national significance**

On June 28, 2017, President Duterte issued Executive Order No. 30 (“**EO 30**”) which created the Energy Investment Coordinating Council (“**EICC**”) in order to streamline the regulatory procedures affecting energy projects. In the said order, the President declared that it is the policy of the Philippine Government to ensure a continuous, adequate and economic supply of energy; and, accordingly, an efficient and effective administration process for energy projects of national significance (“**EPNS**”) should be developed in order to avoid unnecessary delays in the implementation of the Philippine Energy Plan (“**PEP**”). EPNS are major energy projects for power generation, transmission and/or ancillary services including those required to maintain grid stability and security for on and off-Grid areas, identified and endorsed by the DOE as “projects of national significance” that are in consonance with the policy thrusts and specific goals of the PEP, and which possess any of the following attributes:

- (a) significant capital investment of at least ₱3.5 billion;
- (b) significant contribution to the country’s economic development, provided that this pertains to the potential of the project to promote to greater access to energy and energy supply security of the country;
- (c) significant consequential economic impact, provided that this pertains to the potential of the project to generate jobs, employment and increase revenues for the government, among others;
- (d) significant potential contribution to the country’s balance of payments, provided that this refers to the potential of the project to contribute to the inflow of foreign investment capital;
- (e) significant impact on the environment, provided that this pertains to the potential of the project to contribute to sustainability with minimal adverse effects to the environment;

- (f) complex technical processes and engineering designs, provided that these refer to projects involving newly developed or pioneering energy systems and/or technologies; and
- (g) significant infrastructure requirements, provided that the project has associated infrastructure necessary for the delivery of energy services and/or supply such as transmission and distribution networks.

The EICC is mandated to spearhead and coordinate national government efforts to harmonize, integrate and streamline regulatory processes, requirements and forms relevant to the development of energy investments in the country, primarily with regard to EPNS, to uphold transparency and accountability among concerned agencies. The rules, regulations and processes to be agreed upon within the EICC and to be adopted by its member-agencies shall adhere to the following baselines with regard to EPNS:

- *Presumption of prior approvals* — Government agencies and instrumentalities that receive an application for a permit involving EPNS shall process such applications without awaiting the action of any other agency. The processing agency shall act on the presumption that the relevant permits from other government agencies had already been issued.
- *Action within 30 days* — Government agencies and instrumentalities shall act upon applications for permits involving EPNS within a specified processing timeframe not exceeding 30 days from the submission of complete documentary requirements. Should such application be denied, the denial should be made in writing, expressly providing the grounds therefor. If no decision is made within the specified processing timeframe, the approving authority may no longer deny the application and shall issue the relevant permit within five working days after the lapse of such period.

No deviation from the baselines shall be allowed except when absolutely necessary either to enable an agency to comply with specific statutory directive or to avoid prejudicing the public interest. The procedures for the issuance of environmental compliance certificates which may be required for EPNS shall be among the matters to be discussed within the EICC.

On April 25, 2018, the DOE issued Department Circular No. 2018-04-0013, setting for the implementing rules and regulations of EO 30. The rules provide, among others, that a project registered with the DOE as an EPNS is entitled to the following rights, among others: (i) processing time of 30-working days upon submission to the relevant government agency of complete documentary requirements, (ii) to have its application processed, without awaiting the action of other government agencies where such action is a precondition to such application, (iii) on the assumptions that the submitted requirements are complete in substance and form, actions to be taken for the project must not exceed 30 working days and (iv) upon the determination of any defect or lapses in substance and form of the submitted documents, the project proponent shall be notified and will be given appropriate time to take the necessary actions. The foregoing rights extend to associated infrastructure of the project registered as an EPNS.

On December 10, 2020, the DOE issued an advisory on the suspension of the issuance of the Certification of Energy Project of National Significance (“CEPNS”) to give way to a thorough evaluation of its effectiveness with respect to securing regulatory permits and licenses, endorsements and other requirements relevant to the timely development and completion of energy projects. In parallel with the CEPNS process evaluation, all applications for CEPNS will be automatically migrated to the EVOSS. Energy Virtual One-Stop Shop (“EVOSS”)

On March 8, 2019, Republic Act No. 11234, otherwise known as the “Energy Virtual One-Shop Act” (“EVOSS Act”), was signed into law establishing an energy virtual one-stop shop under the supervision of the DOE. The EVOSS is a web-based system that allows the coordinated submission and synchronous processing of all required data and information and provides a single decision-making portal for actions on applications for permits and/or certifications necessary for, or related to, an application of a proponent for new power generation, transmission or distribution projects.

Under the EVOSS Act, the relevant government agencies have the obligation to ensure that all actions on applications before it and its attached bureaus, offices, and agencies, at both the national and local levels, government-owned and -controlled corporations as well as local government units and other entities involved in the permitting process shall be released within the time frames stated in the EVOSS Act. Failure of the mother agency and its attached bureaus, offices, and agencies at both the national and local levels, including government-owned and -controlled corporations as well as local government units and other entities involved in the permitting

process, to release its action on applications duly submitted with complete supporting electronic documents within the prescribed time frame shall cause applications to be deemed approved, provided that such deemed approval shall not apply to actions by DENR and ERC on applications by fossil fuel-based technologies such as coal, natural gas, and oil.

The EVOSS Act mandates participation and compliance by all government agencies and other relevant entities involved in the permitting process of all new power generation, transmission and distribution projects. A government's official and/or employee's willful refusal to participate in the EVOSS and failure to comply with the mandated time frames as provided in the EVOSS Act and its implementing rules, or as imposed by the EVOSS steering committee, shall be considered an administrative offense, and may be penalized with suspension without pay or dismissal and perpetual disqualification from public service, as applicable, without prejudice to the filing of criminal, civil or other related charges under existing laws, as may be appropriate. In the case of NGCP as System Operator and Transmission Network Provider, the ERC shall impose a penalty of one hundred thousand pesos (₱100,000.00) for every day of delay.

### **The Grid Code**

The Philippine Grid Code establishes and documents the basic rules, requirements, procedures and standards that govern the operation, maintenance and development of the Philippine Grid, or the high-voltage backbone transmission system and its related facilities. The Grid Code identifies and recognizes the responsibilities and obligations of three key independent functional groups, namely: (a) transmission network provider, or NGCP; (b) the system operator, or NGCP as the current concessionaire of TRANSCO; and (c) the market operator, or the PEMC. These functional groups, as well as all users of the Grid, including generation companies and distribution utilities, must comply with the provisions of the Grid Code as promulgated and enforced by the ERC. The Grid Code is intended to be used along with the Market Rules of the Wholesale Electricity Spot Market to ensure the safe, reliable and efficient operation of the Philippine Grid.

In order to ensure the safe, reliable and efficient operation of the Philippine Grid, the Grid Code provides for, among others, the following regulations:

- the establishment of a Grid management committee, which is tasked with the monitoring of the day-to-day operations of the Grid;
- performance, operation, and maintenance standards for the Grid's transmission of electricity;
- operational responsibilities, criteria for operation, maintenance and operating programs, necessary reports, and measures for both frequency and voltage control;
- criteria for technical and financial standards applicable to generation companies, and DUs.

### **The OATS Rules**

The OATS Rules establish the responsibilities of transmission customers upon the conditions of receiving transmission services. The OATS Rules outline the responsibilities of the transmission provider and the functions of the system operator as specified in the Grid Code and the WESM Rules.

The OATS Rules are grounded on the IRR of the EPIRA, the Grid Code, and the WESM Rules. The OATS Rules complement the Transmission Wheeling Rate Guidelines and the WESM Manuals. This set of rules is expected to ensure the development of an appropriate, equitable and transparent electricity market, along with the safe, reliable, and efficient operation of the power system.

On December 22, 2017, NGCP filed a petition with the ERC, which sought to introduce amendments to the OATS Rules to conform with the provisions of the WESM Rules, the Philippine Grid Code, the Feed In Tariff Rules, the Renewable Energy Act, and other resolutions and issuances by the ERC, the Grid Management Committee, and the DOE.

### **Anti-Obstruction of Power Lines Act**

On August 8, 2019, the President of the Philippines signed into law Republic Act No. 11361 or the Anti-Obstruction of Power Lines Act, which mandates that the power line corridor, comprising of the land beneath, the

air spaces surrounding, and the area traversed by power lines, including its horizontal, vertical, and similar clearance requirements, shall at all times be kept clear and free from any power line obstructions, dangerous structures, hazardous activities and improvements, and other similar circumstances. Under the law, in case where the power line corridor is wholly or partially located within a private property not owned by the owner or operator of the power lines (i.e., NGCP), it shall constitute a legal easement upon the private property in accordance with the Civil Code, except if the owner or operator of the power lines acquires, leases, or enters into other gratuitous or onerous arrangement with the property owner.

Further, the power line owner or operator has the primary duty and responsibility to remove power line obstructions. It has the right to enter a public property where the power line corridor is located to prevent and remove any power line obstruction. In case where the power line corridor is located within a private property, the property owner shall coordinate and assist the power line owner or operator by facilitating the necessary access in order to perform the necessary acts to remove any power line obstruction.

## **GENERAL BUSINESS REGULATORY FRAMEWORK**

### **Philippine Competition Act**

On July 21, 2015, the President of the Philippines signed into law Republic Act No. 10667 or the Philippine Competition Act, which became effective on August 8, 2015. It aims to enhance economic efficiency and promote free and fair competition in trade, industry and all commercial economic activities, prevent economic concentration which will manipulate or constrict the discipline of free markets, and penalize all forms of anti-competitive agreements, abuse of dominant position and anti-competitive mergers and acquisitions, with the objective of protecting consumer welfare and advancing domestic and international trade and economic development. Although the Philippine Competition Act is silent on its applicability specifically to the electric power industry, Section 55(c) of the Philippine Competition Act provides that insofar as Section 43(u) of the EPIRA is inconsistent with provisions of the Philippine Competition Act, it shall be repealed. In view of this, the Philippine Competition Commission (“**PCC**”) now has the original and exclusive jurisdiction over anti-competitive cases in the energy sector.

On May 31, 2016, the PCC promulgated rules and regulations in order to effectively carry out the provisions of the Philippine Competition Act. Under the Rules, parties to a merger or acquisition are required to provide notification to the PCC when the following thresholds are met: (i) the aggregate annual gross revenues in, into or from the Philippines, or value of the assets in the Philippines of the ultimate parent company of at least one of the acquiring or acquired entities, including that of all entities that the ultimate parent company controls, directly or indirectly (“**Size of Party/Person**”), exceeds ₱1,000,000,000.00; and (ii) the value of the transaction (“**Size of Transaction**”) exceeds ₱1,000,000,000.00.

The Size of Party/Person and Size of Transactions have been gradually increased by the PCC to ensure that the thresholds maintain their real value over time and relative to the size of the economy. Beginning March 1, 2019 and for every subsequent year, the notification thresholds will be indexed based on the official estimates by the Philippine Statistics Authority of the nominal GDP growth for the previous calendar year rounded up to the nearest hundred million.

Under Commission Resolution No. 02-2020, effective March 1, 2020, the threshold in relation to the Size of Person was increased to ₱6,000,000,000.00, and the threshold for the Size of Transaction was increased to ₱2,400,000,000.00.

Notably, Bayanihan II exempted (a) from the compulsory notification requirement all mergers and acquisitions with transaction values below ₱50,000,000,000.00 if entered into within two years from Bayanihan II’s effectivity; and (b) from the power of the PCC to review mergers and acquisitions *motu proprio* for a period of one year from Bayanihan II’s effectivity. Bayanihan II became effective immediately upon its publication in a newspaper of general circulation or in the Official Gazette. Bayanihan II was published in Manila Bulletin on September 15, 2020.

On September 24, 2020, the PCC issued Commission Resolution No. 22-2020 adopting the “Rules for the Implementation of Section 4 (eee) of Republic Act No. 11494, otherwise known as the ‘Bayanihan to Recover as One Act,’ Relating to the Review of Mergers and Acquisitions” (the “**Bayanihan II PCC Rules**”). Under PCC’s Commission Resolution No. 22-2020, it shall be effective upon publication in a newspaper of general circulation.

The Bayanihan II PCC Rules provides that in determining the transaction value, ₱50,000,000,000.00 shall be used as the new Size of Party/Person and Size of Transaction thresholds for compulsory notification. Mergers and acquisitions with at least ₱50,000,000,000.00 transaction value, and those that are entered into before the effectivity of Bayanihan II and exceed the applicable thresholds when the definitive agreement was signed, are still subject to compulsory notification. In terms of motu proprio review, mergers and acquisitions entered into before the effectivity of Bayanihan II which have not yet been the subject of PCC's review, or pending review by PCC before the effectivity of Bayanihan II Act, are not covered by Bayanihan II's exemption. Further, under the Bayanihan II PCC Rules, mergers and acquisitions that are likely to substantially lessen competition may be reviewed motu proprio after one year from Bayanihan II's effectivity.

### **Local Government Code**

Republic Act No. 7160, otherwise known as the Local Government Code of 1991 (“**LGC**”) establishes the system and powers of provincial, city, municipal, and barangay governments in the country. The LGC general welfare clause states that every local government unit (“**LGU**”) shall exercise the powers expressly granted, those necessarily implied, as well as powers necessary, appropriate, or incidental for its efficient and effective governance, and those which are essential to the promotion of the general welfare.

The power to tax and police power are exercised by the LGU through their respective legislative bodies. Specifically, the LGU, through its legislative body, has the authority to enact such ordinances as it may deem necessary and proper for sanitation and safety, the furtherance of the prosperity, and the promotion of the morality, peace, good order, comfort, convenience, and general welfare of the locality and its inhabitants. Ordinances can reclassify land, impose real property taxes, regulate business establishments, and require permits and licenses from businesses operating within the territorial jurisdiction of the LGU.

### **Labor and Employment**

The Department of Labor and Employment (“**DOLE**”) is the Philippine government agency mandated to formulate policies, implement programs and services, and serves as the policy-coordinating arm of the Executive Branch in the field of labor and employment. The DOLE has exclusive authority in the administration and enforcement of labor and employment laws such as the Labor Code of the Philippines and the Occupational Safety and Health Standards (which sets out, among others, the guidelines applicable to different establishments intended for the protection of every workingman against the dangers of injury, sickness or death through safe and healthful working conditions), as amended, and such other laws as specifically assigned to it or to the Secretary of the DOLE.

### **Occupational Safety and Health Standards Law**

On 17 August 2018, Republic Act No. 11058 or the Occupational Safety and Health Standards Law was signed into law. It mandates employers, contractors or subcontractors and any person who manages, controls or supervises the work, to furnish the workers a place of employment free from hazardous conditions that are causing or are likely to cause death, illness or physical harm to the workers. It also requires employers, contractors or subcontractors to give complete job safety instructions or orientation and to inform the workers of all hazards associated with their work, health risks involved or to which they are exposed, preventive measures to eliminate or minimise the risks and steps to be taken in cases of emergency.

An employer, contractor or subcontractor who wilfully fails or refuses to comply with the Occupational Safety and Health Standards Law shall be administratively liable for a fine. Further, the liability of the employer, project owner, general contractor, contractor or subcontractor, if any, and any person who manages, controls or supervises the work, shall be solidary.

### **Social Security System, PhilHealth and the Pag-IBIG Fund**

An employer or any person who uses the services of another person in business, trade, industry or any undertaking is required under Republic Act No. 11199, the Social Security Act of 2018 to ensure coverage of employees following procedures set out by the law and the Social Security System (“**SSS**”). Under the said law, an employer must deduct from its employees their monthly contributions in an amount corresponding to his salary, wage, compensation or earnings during the month in accordance with the monthly salary credits, the schedule and the rate of contributions as may be determined and fixed by the Social Security Commission, pay its share of contribution and remit these to the SSS within a period set by law and/ or SSS regulations.

Employers are likewise required to ensure enrollment of its employees in a National Health Insurance Program administered by the Philippine Health Insurance Corporation a government corporation attached to the Department of Health tasked with ensuring sustainable, affordable and progressive social health insurance pursuant to the provisions of Republic Act No. 10606, the National Health Insurance Act of 2013. On February 20, 2019, Republic Act No. 11223, the Universal Health Care Act, was enacted, which amended certain provisions of the National Health Insurance Act of 2013. Under the said law, all Filipino citizens are now automatically enrolled into the National Health Program. However, membership is classified into two types, direct contributors and indirect contributors. Direct contributors refer to those who have the capacity to pay premiums, are gainfully employed and are bound by an employer-employee relationship, or are self-earning, professional practitioners, migrant workers, including their qualified dependents, and lifetime members. On the other hand, indirect contributors refer to all others not included as direct contributors, as well as their qualified dependents, whose premium shall be subsidized by the national government including those who are subsidized as a result of special laws. Every member is also granted immediate eligibility for health benefit package under the program.

Under Republic Act No. 9679, the Home Development Mutual Fund Law of 2009, all employees who are covered by the SSS must also be registered with and covered by the Home Development Mutual Fund, more commonly referred to as the Pag-IBIG Fund.

### **Labor Code Provision on Retirement Pay**

The Philippine Labor Code provides that, in the absence of a retirement plan provided by their employers, private sector employees who have reached 60 years of age or more, but not beyond 65 years of age, the compulsory retirement age for private-sector employees without a retirement plan, and who have rendered at least five years of service in an establishment, may retire and receive a minimum retirement pay equivalent to one-half month's salary for every year of service, with a fraction of at least six months being considered as one whole year.

For the purpose of computing the retirement pay, "one-half month's salary" shall include all of the following: 15 days salary based on the latest salary rate; in addition, 1/12 of the thirteenth month pay and the cash equivalent of five days of service incentive leave pay. Other benefits may be included in the computation of the retirement pay upon agreement of the employer and the employee or if provided in a collective bargaining agreement.

### **DOLE Mandated Work-Related Programmes**

Under the Comprehensive Dangerous Drugs Act, a national drug abuse prevention programs implemented by the DOLE must be adopted by private companies with ten or more employees. For this purpose, employers must adopt and establish company policies and programs against drug use in the workplace in close consultation and coordination with the DOLE, labor and employer organizations, human resource development managers and other such private sector organizations. DOLE Department Order No. 053-03 sets out the guidelines for the implementation of Drug-Free Workplace policies and programs for the private sector.

The employer or the head of the work-related, educational or training environment or institution also has the duty to prevent or deter the commission of acts of sexual harassment and to provide the procedures for the resolution, settlement or prosecution of such cases. Under the Anti-Sexual Harassment Act, the employer will be solidarily liable for damages arising from the acts of sexual harassment committed in the workplace if the employer is informed of such acts by the offended party and no immediate action is taken. Notwithstanding this, the victim of sexual harassment is not precluded from instituting a separate and independent action for damages and other affirmative relief. Any person who violates the provisions of this law shall, upon conviction, be penalized by imprisonment of not less than one month nor more than six months, or a fine of not less than ₱10,000 nor more than ₱20,000, or both such fine and imprisonment, at the discretion of the court. Any action arising from the violation of the provisions of this law shall prescribe in three years.

Moreover, the Philippines AIDS Prevention and Control Act and its implementing rules and regulations require all private workplaces to have a policy on HIV and AIDS and to implement a workplace program in accordance with the Philippines AIDS Prevention and Control Act. The workplace policies aim to manage sensitive issues, such as confidentiality of medical information and continuation of employment for HIV-positive staff, and to avoid the discrimination of any employee due to HIV/AIDS. Any HIV/AIDS-related information of workers should be kept strictly confidential and kept only on medical files, whereby access to it is strictly limited to medical personnel.

All private workplaces are also required to establish policies and programs on solo parenting, Hepatitis B, and

tuberculosis prevention and control.

### **Data Protection and Privacy Regulations**

Republic Act No. 10173 or the “Data Privacy Act of 2012” (“**DPA**”) applies to the processing of all types of personal information and to any natural and juridical persons engaged in personal information processing. It also covers those personal information controllers and processors who, although not found or established in the Philippines, use equipment that are located in the Philippines, or those who maintain an office, branch or agency in the Philippines. The law defines personal information as any information whether recorded in a material form or not, from which the identity of an individual is apparent or can be reasonably and directly ascertained by the entity holding the information, or when put together with other information would directly and certainly identify an individual. On the other hand, sensitive personal information refers to personal information:

- (a) About an individual’s race, ethnic origin, marital status, age, colour, and religious, philosophical or political affiliations;
- (b) About an individual’s health, education, genetic or sexual life or a person, or to any proceeding for any offence committed or alleged to have been committed by such person, the disposal of such proceedings, or the sentence of any court in such proceedings;
- (c) Issued by government agencies peculiar to an individual which includes, but not limited to, social security numbers, previous or current health records, licences or its denials, suspension or revocation, and tax returns; and
- (d) Specifically established by an executive order or an act of the Philippine Congress to be kept classified. In general, the processing of sensitive personal information and privileged information is prohibited except where: (1) the data subject has given his or her consent, specific to the purpose prior to the processing, or in the case of privileged information, all parties to the exchange have given their consent prior to processing; (2) the processing is provided for by existing laws and regulations; (3) the processing is necessary to protect the life and health of the data subject or another person, and the data subject is not able to give consent; (4) the processing is carried out for limited non-commercial purposes by public organizations and their associations; (5) the processing is necessary for purposes of medical treatment, is carried out by a medical practitioner or a medical treatment institution, and an adequate level of protection of personal information is ensured; or (6) the processing is necessary for court proceedings or legal claims, or is provided to the government or a public authority.

Under the DPA and its implementing rules and regulations, NGCP is required to obtain the consent of its employees with regard to the collection and processing of their personal data.

The employees as data subjects must be provided with specified information regarding the processing of their personal data, *i.e.*, scope and purpose, intended recipients of the personal data collected, retention period, rights of data subjects, etc., and must give their consent to such processing before their personal information can be lawfully collected and processed.

The DPA IRR and regulations issued by the National Privacy Commission impose a registration requirement that must be complied with by NGCP. Among other requirements, the DPA also requires:

- Appointment of a Data Privacy Officer;
- Formulation of a Data Privacy Policy;
- Establishment of a data breach notification team; and
- Adoption and implementation of appropriate organizational, physical, and technical security measures.

NGCP has already completed registration of its data processing systems with the National Privacy Commission . NGCP has also implemented a Data Privacy Policy. Organizational, physical, and technical security measures intended for the protection of personal data are provided in NGCP’s Data Privacy Policy as well as a protocol for data breach notification.

## **Revised Corporation Code**

Republic Act No. 11232, also known as the Revised Corporation Code, was signed into law by President Duterte on February 20, 2019. The Revised Corporation Code took effect on February 23, 2019 upon completion of its publication in Manila Bulletin and the Business Mirror on February 23, 2019.

Among the notable amendments in the Revised Corporation Code are as follows: (i) corporations are now generally given a perpetual existence; (ii) a new section on one-person corporation was added; (iii) the requirement that at least 25% of the authorized capital stock must be subscribed, and at least 25% of the subscribed shares must be paid-up upon incorporation was removed; (iv) stockholders can now vote in absentia; (v) incorporators now include any person, partnership, association or corporation; and (vi) the powers of the Philippine SEC to prosecute and investigate offenses under the Revised Corporation Code has been expanded.

Further, corporations vested with public interest must submit to its shareholders and to the Philippine SEC an annual report of the total compensation of each of its directors or trustees, and a director or trustee appraisal or performance report and the standards or criteria used to assess each director, or trustee. As to the filing of the by-laws and any amendments made to the by-laws of any bank, banking institution, building and loan association, trust company, insurance company, public utility, and other corporations governed by special laws, the Revised Corporation Code requires that a prior certificate of the appropriate government agency to the effect that such bylaws or amendments are in accordance with law, must be submitted.

## **ENVIRONMENTAL MATTERS**

### **Environmental Regulations**

The operations of the transmission business of NGCP is subject to various laws, rules and regulations that have been promulgated for the protection of the environment.

### **EISS Law**

The Philippine Environmental Impact Statement System (the “**EISS Law**”) established under Presidential Decree No. 1586, which is implemented by the DENR, is the general regulatory framework for any project or undertaking that is either (i) classified as environmentally critical or (ii) is situated in an environmentally critical area. The DENR, through its regional offices or through the Environmental Management Bureau (“**EMB**”), determines whether a project is environmentally critical or located in an environmentally critical area and possesses all applications for an ECC.

The law requires an entity that will undertake any such declared environmentally critical project or operate in any such declared environmentally critical area to submit an Environmental Impact Statement (“**EIS**”) which is a comprehensive study of the significant impacts of a project on the environment. The EIS serves as an application for the issuance of an ECC, if the proposed project is environmentally critical or situated in an environmentally critical area; or for the issuance of a Certificate of Non-Coverage, if otherwise. An ECC is a Government certification that, among others, (i) the proposed project or undertaking will not cause significant negative environmental impact; (ii) the proponent has complied with all the requirements of the EISS Law in connection with the project; and (iii) the proponent is committed to implement its approved Environmental Management Plan (“**EMP**”) in the EIS. or, if an Initial Environmental Examination (“**IEE**”) was required, that it shall comply with the mitigation measures provided therein before or during the operations of the project and in some cases, during the abandonment phase of the project The EMP details the prevention, mitigation, compensation, contingency and monitoring measures to enhance positive impacts and minimize negative impacts and risks of a proposed project or undertaking.

Project proponents that prepare an EIS are required to establish an Environmental Guarantee Fund when the ECC is issued for projects determined by the DENR to pose a significant public risk to life, health, property and the environment or where the project requires rehabilitation or restoration. The Environmental Guarantee Fund is intended to meet any damage caused by such a project as well as any rehabilitation and restoration measures. Project proponents also required to establish an Environmental Monitoring Fund (“**EMF**”) when an ECC is eventually issued. The EMF is to support the activities of the team monitoring the project proponent’s compliance with ECC conditions, EMP and applicable laws, rules and regulations.

Transmission system operations are considered environmentally critical projects for which an EIS and an ECC are mandatory.

The IEE refers to the document and the study describing the environmental impact, including mitigation and enhancement measures, for projects in environmentally critical areas. In the case of an environmentally critical project within an environmentally critical area, an EIS is required in addition to the IEE.

While the terms and conditions of an EIS or an IEE may vary from project to project, as a minimum, it contains all relevant information regarding the project's environmental effects. The entire process of organization, administration and assessment of the effects of any project on the quality of the physical, biological and socioeconomic environment as well as the design of appropriate preventive, mitigating and enhancement measures is known as the EIS System. The EIS System successfully culminates in the issuance of an ECC.

Project proponents that prepare an EIS are required to establish an Environmental Guarantee Fund (“**EGF**”) when the ECC is issued for projects determined by the DENR to pose a significant public risk to life, health, property and the environment or where the project requires rehabilitation or restoration. The Environmental Guarantee Fund is intended to meet any damage caused by such a project as well as any rehabilitation and restoration measures. Project proponents that prepare an EIS are also mandated to include a commitment to establish an Environmental Monitoring Fund (“**EMF**”) when an ECC is eventually issued. The EMF shall be used to support activities of a multi-partite monitoring team that will be organised to monitor compliance with the ECC and applicable laws, rules and regulations.

In certain instances, the EMB may determine and issue a certification that a certain project is not covered by the EIS System and an ECC is not required. Consequently, a Certificate of Non-Coverage may be issued in lieu of an ECC.

### **The Clean Water Act**

The Clean Water Act (Republic Act No. 9275) and its implementing rules and regulations provide for water quality standards and regulations for the prevention, control, and abatement of pollution of the water resources of the country. The Clean Water Act requires owners or operators of facilities that discharge regulated effluents (such as wastewater from manufacturing plants or other commercial facilities) to secure a discharge permit from the DENR which authorizes the owners and operators to discharge waste and/or pollutants of specified concentration and volumes from their facilities into a body of water or land resource for a specified period of time. The DENR, together with other Government agencies and the different local Government units, is tasked to implement the Clean Water Act and to identify existing sources of water pollutants, as well as strictly monitor pollution sources which are not in compliance with the effluent standards provided in the law.

### **Discharge Permit**

All development projects, installations and activities that discharge liquid waste into and pose a threat to the environment of Laguna de Bay Region are also required to obtain a discharge permit from the Laguna Lake Development Authority.

### **The Clean Air Act**

Pursuant to the Clean Air Act of 1999 (Republic Act No. 8749) and its implementing rules and regulations, enterprises that operate or utilize air pollution sources are required to obtain a Permit to Operate from the DENR with respect to the construction or the use of air pollutants. The issuance of the said permit seeks to ensure that regulations of the DENR with respect to air quality standards and the prevention of air pollution are achieved and complied with by such enterprises.

### **Other Environmental Laws**

Other regulatory environmental laws and regulations applicable to the business of NGCP include the following:

- The Toxic Substances and Hazardous and Nuclear Wastes Control Act of 1990 (Republic Act No. 6969), which regulates, restricts or prohibits the (i) importation, manufacture, processing, handling, storage, transportation, sale, distribution, use and disposal of chemical substance and mixtures that present unreasonable risk or injury to health or the environment, and (ii) entry into the Philippines, or the keeping in storage of hazardous wastes which include byproducts, process residue, contaminated plant or equipment or other substances from manufacturing operations. The said law is implemented by the DENR.

New chemicals are listed in the Philippine Inventory of Chemicals and Chemical Substances (“**PICCS**”). The PICCS is a list of existing industrial chemicals and chemical substances used, sold, distributed, imported, processed, manufactured, stored, exported, treated, or transported in the Philippines.

Once a chemical is listed in the PICCS, it may be manufactured or imported with no control, provided it is not included in the Priority Chemicals List or subject to a Chemical Control Order (“**CCO**”). A CCO prohibits, limits or regulates the use, manufacture, import, export, transport, processing, storage, possession and wholesale of priority chemicals that are determined to be regulated, phased-out, or banned because of the serious risks they pose to public health, the work place, and the environment. The objective of a CCO is to ensure the proper management of the chemicals so that danger to human health and the environment is reduced.

Violations of are punishable by fine and/or imprisonment and possible administrative fines. The Ecological Solid Waste Management Act of 2000 (Republic Act No. 9003), which provides for the proper management of solid waste which includes discarded commercial waste and non-hazardous institutional and industrial waste. The said law prohibits, among others, the transporting and dumping of collected solid wastes in areas other than prescribed centers and facilities. The National Solid Waste Management Commission, together with other Government agencies and the different local Government units, are responsible for the implementation and enforcement of the said law.

The same law mandates all, especially, the LGUs, to adopt a systematic, comprehensive and ecological solid waste management program which shall ensure protection of public health and environment, utilize environmentally sound methods, set targets and guidelines for solid waste avoidance and reduction and ensure proper segregation, collection, transport and storage of solid waste. The National Solid Waste Management Commission, together with other Government agencies and the different LGUs, are responsible for the implementation and enforcement of the said law.

- The Code on Sanitation of the Philippines (the “**Sanitation Code**”) (Presidential Decree No. 856), which provides for sanitary and structural requirements in connection with the operation of certain establishments such as industrial establishments. Under the Sanitation Code, which is implemented by the Philippine Department of Health, no person, firm, corporation, or entity shall operate any industrial establishment without first obtaining a sanitary permit. Non-compliance with the provisions of the Code on Sanitation may result in the revocation of the sanitary permit, which is a requisite for the operation of a food establishment. Moreover, a food establishment that employs a person without the appropriate health certificate may be punished by fine or imprisonment, or both.

## **FOREIGN INVESTMENTS AND LAWS AND REGULATIONS RELATING TO RESTRICTIONS ON FOREIGN EQUITY**

### **Foreign Investments Act of 1991**

The Foreign Investments Act of 1991 or Republic Act No. 7042 (“**FIA**”) liberalized the entry of foreign investments into the Philippines. As a general rule, there are no restrictions on the extent of foreign ownership of export enterprises. Under the FIA, in domestic market enterprises, foreigners can own as much as 100% equity except in areas specified in the Eleventh Regular Foreign Investment Negative List (the “**Negative List**”). This Negative List enumerates industries and activities which have foreign ownership limitations under the FIA and other existing laws. Nationalized activities include, among others, land ownership, telecommunications, mining and the operation of public utilities.

In addition, the Philippine Constitution requires franchises, certificates, or other forms of authorization for the operation of a public utility to be granted only to citizens of the Philippines, or to corporations or associations organized under the laws of the Philippines, at 60% of whose capital is owned by Filipinos.

A Philippine National is defined under the law to mean any of the following: (i) a citizen of the Philippines; (ii) a domestic partnership or association wholly owned by citizens of the Philippines; (iii) a corporation organized under the laws of the Philippines of which at least sixty percent (60%) of the capital stock outstanding and entitled to vote is owned and held by citizens of the Philippines; (iv) a corporation organized abroad and registered as doing business in the Philippines under the Revised Corporation Code of which 100% of the capital stock

outstanding and entitled to vote is wholly owned by Filipinos; or (v) a trustee of funds for pension or other employee retirement or separation benefits, where the trustee is a Philippines national and at least sixty percent (60%) of the fund will accrue to the benefit of the Philippine Nationals.

In SEC Memorandum Circular No. 08 dated May 20, 2013, or the Guidelines on Compliance with the Filipino-Foreign Ownership Requirements Prescribed in the Constitution and/or Existing Laws by Corporations Engaged in Nationalized and Partly Nationalized Activities, it is provided that for purposes of determining compliance with the nationality requirement, the required percentage of Filipino ownership shall be applied both to (a) the total number of outstanding shares of stock entitled to vote in the election of directors, and (b) the total number of outstanding shares of stock, whether or not entitled to vote in the election of directors. A petition for certiorari questioning the constitutionality of SEC Memorandum Circular No. 8 dated May 20, 2013 was filed in June 2013. In *Jose M. Roy III v. Chairperson Teresita Herbosa* (G.R. No. 207246) dated April 18, 2017, the Supreme Court affirmed the validity of SEC Memorandum Circular No. 08 dated May 20, 2013.

In the 2014 case of *Narra Nickel Mining and Development Corporation, et.al vs. Redmont Consolidated Mines Corp* (G.R. No. 195580) and its corresponding motions for reconsideration (the “**Narra Nickel Case**”), the Supreme Court affirmed that the Grandfather Rule, wherein shares owned by corporate shareholders are attributed either as Filipino or foreign equity by determining the nationality not only of such corporate shareholders, but also such corporate shareholders’ own shareholders, until the nationality of shareholder individuals is taken into consideration, is to be used jointly and cumulatively with the Control Test, which merely takes into account the nationality of the listed shareholders of the corporation. Such joint and cumulative application shall be observed as follows: (i) if the corporation’s Filipino equity falls below 60.0%, such corporation is deemed foreign-owned, applying the Control Test; (ii) if the corporation passes the Control Test, the corporation will be considered a Filipino corporation only if there is no doubt as to the beneficial ownership and control of the corporation; and (iii) if the corporation passes the Control Test but there is doubt as to the beneficial ownership and control of the corporation, the Grandfather Rule must be applied. For as long as the percentage of Filipino ownership of the capital stock of the corporation is at least sixty percent (60%) of the total shares outstanding and voting, the corporation shall be considered as a wholly Filipino-owned corporation. Restrictions under the Philippine Constitution require corporations engaged in the operation of public utilities to ensure at least sixty percent (60%) of its capital is owned by Filipinos.

### **Land Ownership**

The Philippine Constitution and related statutes set forth restrictions on foreign ownership of owning land in the Philippines. Article XII, Section 7 of the Philippine Constitution, in relation to Article XII, Section 2 of the Philippine Constitution and Chapter 5 of Commonwealth Act No. 141, states that no private land shall be transferred or conveyed except to citizens of the Philippines or to corporations or associations organized under the laws of the Philippines at least 60% of whose capital is owned by such citizens. While the Philippine Constitution prescribes nationality restrictions on land ownership, there is generally no prohibition against foreigners owning buildings and other permanent structures. However, with respect to condominium developments, the foreign ownership of units in such developments is limited to 40.0%. A corporation with more than 40.0% foreign equity may be allowed to lease land for a period of 25 years, renewable for another 25 years.

### **Registration of Foreign Investments and Exchange Controls**

Under current BSP regulations, an investment in Philippine securities (such as the Offer Shares) must be registered with the BSP if the foreign exchange needed to service the repatriation of capital and/or the remittance of dividends, profits and earnings derived from such shares is to be sourced from the Philippine banking system. If the foreign exchange required to service capital repatriation or dividend remittance will be sourced outside the Philippine banking system, registration with the BSP is not required. BSP Circular No. 471 issued on January 24, 2005 subjects foreign exchange dealers and money changers to RA No. 9160 (the Anti-Money Laundering Act of 2001, as amended) and requires these non-bank sources of foreign exchange to require foreign exchange buyers to submit supporting documents in connection with their application to purchase foreign exchange for purposes of capital repatriation and remittance of dividends.

Registration of Philippine securities listed in the PSE may be done directly with a custodian bank duly designated by the foreign investor. A custodian bank may be a universal or commercial bank or an offshore banking unit registered with the BSP to act as such and appointed by the investor to register the investment, hold shares for the investor, and represent the investor in all necessary actions in connection with his investments in the Philippines. Applications for registration must be accompanied by: (i) purchase invoice, subscription agreement and proof of

listing on the PSE (either or both); (ii) original certificate of inward remittance of foreign exchange and its conversion into Philippine Pesos through an authorized agent bank in the prescribed format; and (iii) authority to disclose (“**Authority to Disclose**”) in the prescribed format. The Authority to Disclose allows the custodian bank to disclose to the BSP any information that may be required to comply with post-audit requirements for the registration of Peso-denominated investments.

Upon registration of the investment, proceeds of divestments, or dividends of registered investments are repatriable or remittable immediately and in full through the Philippine banking system, net of applicable tax, without need of BSP approval. Capital repatriation of investments in listed securities is permitted upon presentation of the BSP registration document (“**BSRD**”) or BSRD Letter-Advice from the registering custodian bank and the broker’s sales invoice, at the exchange rate prevailing at the time of purchase of the foreign exchange from the banking system. Remittance of dividends is permitted upon presentation of: (1) the BSRD or BSRD Letter-Advice; (2) the cash dividends notice from the PSE and the Philippine Depository and Trust Corporation (formerly the Philippine Central Depository) showing a printout of cash dividend payment or computation of interest earned; (3) the copy of the corporate secretary’s sworn statement attesting to the board resolution covering the dividend declaration and (4) the detailed computation of the amount applied for in the format prescribed by the BSP. For direct foreign equity investments, the latest audited financial statements or interim financial statements of the investee firm covering the dividend declaration period need to be presented in addition to the documents enumerated above. Pending reinvestment or repatriation, divestment proceeds, as well as dividends of registered investments, may be lodged temporarily in interest-bearing deposit accounts. Interest earned thereon, net of taxes, may also be remitted in full. Remittance of divestment proceeds or dividends of registered investments may be reinvested in the Philippines if the investments are registered with the BSP or the investor’s custodian bank.

The foregoing is subject to the power of the BSP, with the approval of the President of the Philippines, to suspend temporarily or restrict the availability of foreign exchange, require licensing of foreign exchange transactions or require delivery of foreign exchange to the BSP or its designee during a foreign exchange crisis, when an exchange crisis is imminent, or in times of national emergency. Furthermore, there can be no assurance that the foreign exchange regulations issued by the BSP will not be made more restrictive in the future.

The registration with the BSP of all foreign investments in the Offer Shares shall be the responsibility of the foreign investor.

NGCP operates as a public utility and also own certain real estate and, as such, it is subject to certain nationality restrictions found under the Philippine Constitution and other laws limiting ownership to Philippine Nationals.

As of June 30, 2021, Filipino shareholders own 99.96% of the outstanding capital stock of the Issuer, while foreign shareholders own 0.04% of the outstanding capital stock of the Issuer.

## DIRECTORS AND MANAGEMENT

### SYNERGY

#### Board of Directors

The Issuer's Board of Directors is responsible for the overall management and direction of the Issuer. The Board meets as often as required, to review and monitor the Issuer's financial position and operations and decide on such other matters as may be required by law to be decided by the Board.

The directors of the Issuer are elected at the annual stockholders meeting (ASM) to hold office for one year and until their respective successors have been elected and qualified. The following are the incumbent members of the Issuer's Board of Directors:

Name	Age	Citizenship	Designation
Henry T. Sy, Jr.	67	Filipino	Director
Robert G. Coyiuto, Jr.	70	Filipino	Director
Jose Perpetuo M. Lotilla	65	Filipino	Lead Independent Director
Luis Jose P. Ferrer	64	Filipino	Independent Director
Francis Saturnino C. Juan	52	Filipino	Independent Director
Paul P. Sagayo, Jr.	54	Filipino	Director
Vicente D. Gerochi IV	53	Filipino	Director

**Henry T. Sy, Jr.** is the Chairman of the Board and Chief Executive Officer of SM Development Corporation. He is also the Chairman of SM Prime Holdings, Inc. and Vice Chairman of SM Investments Corporation. He is a Director of National Grid Corporation of the Philippines. He holds the following positions in other companies, including publicly listed companies: Chairman, Pico de Loro Beach 7 Country Club; Director, Chairman, President, Monte Oro Grid Resources Corporation; Director, Chairman, President, OneTaipan Holdings, Inc.; Chairman, Bigboss Cement Inc.; Director, Bigboss Holdings, Inc.; Chairman, President, Cutad, Inc.; Chairman, President, HSBB, Inc.; Chairman, President, Chief Executive Officer, Kingdom888 Holdings, Inc.; Chairman, President, Multi-Reality Development Corp.; Chairman, President, PJ Realty Development Corp.; and Director, Sybase Equity Investment Corp. He received his undergraduate degree in Management from Dela Salle College.

**Robert G. Coyiuto, Jr.** is the Chairman of the Board of Prudential Guarantee & Assurance, Inc. He is the Vice Chairman of National Grid Corporation of the Philippines. He holds the following positions in other companies, including publicly listed companies: Director, Chairman, President, Calaca High Power Corporation; Director, Chairman, President, Pacifica 21 Holdings, Inc.; Director, PGA Cars, Inc.; Director, PGA Holdings, Inc.; Director, Chairman, Automaxx Resources Group, Inc.; Director, Chairman, Autoextreme Performance Inc.; Director, Carrera M. Café, Inc.; Director, Chairman, Prestigio Realty, Inc.; Director, Chairman Emeritus, Motor and Carriage, Inc.; Director, Vice Chairman, Motor and Carriage Insurance Agency Corporation; Director, Vice Chairman, First Life Financial Co., Inc.; Director, President, Chief Operating Officer, Oriental Petroleum & Minerals Corporation; Director; Chairman, PGA Sampo Insurance Corporation; Director, Canon Marketing (Philippines), Inc.; Director, Petrogen Insurance Corporation. He is a Presidential Adviser on Capital Market Development, a Member of Philippine Stock Exchange, and Founding Principal of Porsche Training and Recruitment Center Asia. He received his undergraduate degree in Commerce, Major in Management, from San Beda College.

**Jose Perpetuo M. Lotilla** is a practicing lawyer. He is an Independent Trustee of the Philippine Bar Association and was its President from 2019-2020. He was a partner at the law firm of SyCip Salazar Hernandez & Gatmaitan until 2010. He served as Undersecretary of the Department of Transportation and Communications under the Administration of President Benigno Simeon C. Aquino III. He obtained his law degree from the University of the Philippines.

**Luis Jose P. Ferrer** is a Certified Public Accountant and a lawyer who worked as a Tax Partner and Head of Tax Services of SGV & Co. for 21 years, 16 years of which as Tax Partner. He has extensive experience in taxation with specialization in handling tax controversy and tax advisory. Prior to working at SGV, he worked at the Office of the General Counsel of the National Power Corporation and with the Bureau of Internal Revenue (BIR). He regularly serves as a resource person in various tax seminars, and public hearings of the House of Representatives and the Senate on proposed tax bills.

**Francis Saturnino C. Juan** has been working in the energy sector since 2003 when he served as the General Counsel of the Energy Regulatory Commission (ERC). He was the Investigatory Officer in the first investigation conducted pursuant to the Commission’s Competition Rules. From 2006 to 2016, he served as an Executive Director of the ERC where he initiated the review of the framework for the regulation of private electricity service providers in missionary electrification areas. In 2017 to 2018, he acted as the Chief Operating Officer of the Philippine Electricity Market Corporation (PEMC). In 2018 to 2019, he acted as the President and Chief Executive Officer (CEO) of the Independent Electricity Market Operator of the Philippines. Since 2019, he is the President and CEO of the Power Marketplace and Exchange Corporation. He has appeared before Congressional committees, courts, and local and international forums in various capacities for the interests of different energy groups

**Paul P. Sagayo, Jr.** is a partner at Sagayo, Evangelista and Rebueta Law Offices. He is a Director of National Grid Corporation of the Philippines. He holds the following positions in other companies: Director, Calaca High Power Corporation; Director, Pacifica21 Holdings, Inc.; Corporate Secretary, Beneficial Life Insurance, Inc.; Board of Trustees Secretary, Trinity University of Asia; Member of the Board, ETC Realty Corporation. He was also a director of the Capital Markets Integrity Corporation and tendered his resignation from such position on October 14, 2021 in compliance with the requirements of the Philippine SEC in connection with the Offer. He obtained his law degree from San Beda College of Law.

**Vicente D. Gerochi IV** is a senior partner at the law firm of SyCip Salazar Hernandez & Gatmaitan and the head of its Banking, Finance and Securities Department. He holds the following positions in other companies: Director, OneTaipan Holdings, Inc.; Director, Monte Oro Grid Resources Corporation; Director and Corporate Secretary, Becton Dickinson Phils., Inc.; Corporate Secretary, NCM Mutual Fund of the Phils., Inc.; Corporate Secretary, OMD Philippines, Inc.; Corporate Secretary, Omnicom Media Group Philippines, Inc.; and Corporate Secretary, Bandai Namco Philippines, Inc. He received his undergraduate degree in Political Science and his law degree from the Ateneo de Manila University. He obtained his Master of Laws degree from Columbia University.

## Key Officers

The Issuer’s key officers are elected annually by the Board of Directors and serve for one year and until their respective successors have been elected and qualified. At the Organizational Meeting of the Issuer’s Board of Directors held on September 27, 2021, the directors appointed the following key officers:

<u>Name</u>	<u>Age</u>	<u>Citizenship</u>	<u>Designation</u>
Henry T. Sy, Jr.	67	Filipino	Chairman, Board of Directors
Robert G. Coyiuto, Jr.	70	Filipino	Vice Chairman, Board of Directors
Paul P. Sagayo, Jr.	54	Filipino	President and CEO
Justice Lady P. Soriano	50	Filipino	Treasurer, Chief Finance Officer and Investor Relations Officer
Ma. Theresita G. Yulo	61	Filipino	Comptroller, Data Protection Officer, and Related Party Transaction Officer
Cheryl S. Saldaña – de Leon	43	Filipino	Corporate Secretary
Ernest Aaron P. Valdez	29	Filipino	Assistant Corporate Secretary Audit and Risk Officer
Zurohayda Yoko M. Montierro	34	Filipino	
Pia Isabel O. Co	33	Filipino	Compliance Officer

**Justice Lady P. Soriano** is the Treasurer, Chief Finance Officer, and Investor Relations Officer of the Issuer. Prior to her employment with the Issuer, she worked for the Group in various capacities, including as Senior Adviser to the President and CEO of NGCP up to 2019 and as consultant to Calaca High Power Corporation assigned to NGCP from 2015-2019. Previous employment includes Capital Markets Head, Development Bank of the Philippines; Risk Management Manager, Philippine Deposit Insurance Corporation; and Marketing Officer, Urban Bank.

**Ma. Theresita G. Yulo** is the Comptroller, Data Protection Officer, and Related Party Transaction Officer of the Issuer. She is also the Finance Manager of OneTaipan Holdings, Inc., Pacifica21 Holdings, Inc., Monte Oro Grid Resources Corporation, and Calaca High Power Corporation. Previously, she was the Systems Manager at Blue Circle Cement Phils. Inc., Controller at Fortune Cement Corporation, and Division Controller at AG & P

Construction. She is a Certified Public Accountant. She received her undergraduate degree in Accountancy from St. Paul University and her Master of Business Administration degree from De La Salle College.

**Cheryl S. Saldaña – de Leon** is a senior partner at Gerodias Suchianco Estrella Law Firm. Her practice area focuses on securities, project development, and corporate law. She advises domestic and international clients on various mergers and acquisitions and the regulatory environment affecting entities doing business in the Philippines. She provides structuring advice regarding legal framework in the acquisition of an entity, and in assisting in the negotiations with counterparties to the transactions. She sits as a member of the board of directors and acts as Corporate Secretary and compliance officer of various corporations and publicly listed companies.

**Pia Isabel O. Co** is a senior associate at Gerodias Suchianco Estrella Law Firm where she joined as an Associate in 2016. As part of the firm’s Corporate Practice Group, her practice area focuses on corporate law, media, securities, and real estate transactions. She represents domestic and foreign clients before quasi-judicial and other governmental agencies such as the Securities and Exchange Commission (SEC) and the Bureau of Internal Revenue (BIR). She also handles regulatory compliance of publicly listed companies as well as regulatory filings required for equity offerings.

**Zurohayda Yoko M. Montierro** is a certified public accountant. She worked as an Accountant at GSE Management Services Inc. from 2015 to 2018 where she prepares financial reports and statutory filings required by the BIR, SEC, and other government agencies for various corporate clients. From 2018 to 2021, she worked as a Senior Credit Analyst at Unilab Inc. She briefly worked as a Senior Accounts Receivable Analyst at Wells Fargo Enterprise Global Services (EGS) LLC – Philippines prior to joining the Corporation as the Chief Audit and Risk Officer in September 2021.

#### **Involvement in Certain Legal Proceedings of Directors and Key Officers**

As of the date of this Prospectus, to the knowledge and/or information of the Issuer, none of the members of the Board of Directors and Key Officers are presently, or during the last five years, subject to any (a) bankruptcy petition by or against any business of which such director was a general partner or executive officer either at the time of the bankruptcy or within two years prior to that time; (b) conviction by final judgment, in a criminal proceeding, domestic or foreign, or being subject to a pending criminal proceeding, domestic or foreign; (c) order, judgment, or decree, not subsequently reversed, suspended or vacated, of any court of competent jurisdiction, domestic or foreign, permanently or temporarily enjoining, barring, suspending or otherwise limiting his involvement in any type of business, securities, commodities or banking activities; or (d) judgment by a domestic or foreign court of competent jurisdiction (in a civil action), the Commission or comparable foreign body, or a domestic or foreign exchange or other organized trading, market or self-regulatory organization, of a violation of securities or commodities law or regulation, which judgment has not been reversed, suspended or vacated legal proceeding; which would have any material effect on the Issuer, its operations, reputation, or financial condition.

As of the date of this Prospectus, to the knowledge and/or information of the Issuer, none of the members of the Board of Directors and Key Officers are presently, or during the last five years, involved in any legal proceedings, except for Mr. Francis Saturnino C. Juan, who is an independent director of the Issuer. Mr. Juan, in his capacity as independent director of Panay Electric Company (“PECO”), and the other directors and the management of PECO were named as respondents in a syndicated estafa case that the Iloilo City government filed with the Regional Trial Court of Iloilo City for alleged non-payment of franchise taxes for the second to the fourth quarter of 2020. The parties to this case have reached a settlement and the Iloilo City government has filed an affidavit in court withdrawing the complaint. Mr. Juan was elected as independent director of PECO on January 14, 2021, and he resigned from that position on April 29, 2021. The subject matter of the case pertains to events prior to his election as director of PECO.

#### **Significant Employee and Employment Contracts**

While the Issuer values the contribution of each of its executive and non-executive employees, the Issuer believes that there is no non-executive employee the resignation or loss of whom would have a material adverse impact on its business. Other than standard employment contracts, there are no special arrangements with non-executive employees of the Issuer.

In respect of employment contracts with named executive officers, the Issuer has employment contracts in place with Ms. Yulo and Ms. Montierro. There are no special compensatory plan or arrangements with executive officers

of the Issuer following a change in control or in the event of resignation, retirement or other termination of employment other than retirement or termination pay required by law.

### **Warrants and Options**

There are no warrants or options held by Issuer's President and Chief Executive Officer or by any of its directors or officers with respect to SGP's Shares.

### **Family Relationships**

There are no known family relationships between the current members of the Board and Key Officers.

### **Corporate Governance**

The directors, board committees, officers and employees of the Issuer commit themselves to the principles and best practices embodied in its Manual on Corporate Governance (the "Governance Manual"). The Issuer believes that good corporate governance is a necessary component of what constitutes sound strategic business management and will therefore exert every effort to ensure adherence thereto within the organization. The Issuer is subject to the following regulations in connection with its corporate governance and disclosure responsibilities:

- SEC Code of Corporate Governance for Publicly Listed Companies (SEC Memorandum Circular No. 19, Series of 2016);
- Securities Regulations Code of the Philippines (R.A. No. 8799);
- Implementing Rules and Regulations of the Securities Regulation Code;
- PSE Listing and Disclosure Rules, Supplemental Rules and Guidance Notes; and
- Revised Corporation Code of the Philippines.

### **Compliance Officer**

The Issuer has a Compliance Officer who reports to the Board. As required of publicly listed companies, the appointment of the Issuer's Compliance Officer was properly disclosed to the Philippine SEC. The Board also ensures the presence and adequacy of internal control mechanisms for good governance.

The Compliance Officer's duties include ensuring proper on boarding of new directors (*i.e.*, orientation on the company's business, charter, articles of incorporation and by-laws, among others), monitor, review, evaluate and ensure compliance by the Issuer, its officers and directors with the relevant laws, with the Philippine SEC Code of Corporate Governance ("**Governance Code**"), rules and regulations and all governance issuances of regulatory agencies, appear before the Philippine SEC upon summon on matters in relation to compliance with the Code, ensure the integrity and accuracy of all documentary submissions to regulators, determine violation/s of the Governance Code and recommend to the Board the imposition of appropriate disciplinary action on the responsible parties and the adoption of measures to prevent a repetition of the violation, identify possible areas of compliance issues and work towards the resolution of the same, develop and establish, subject to approval of the Board, a monitoring and evaluation system to determine compliance with the Governance Manual, which system shall provide for a procedure that fulfils the requirements of due process, ensure the attendance of board members and key officers to relevant trainings and perform such other duties and responsibilities as may be provided by the Philippine SEC.

### **Integrated Annual Corporate Governance Report (I-ACGR)**

SEC Memorandum Circular No. 15, Series of 2017 was released in December 2017 which mandates all publicly listed companies to submit an Integrated Annual Corporate Governance Report ("**I-ACGR**") on or before May 30 of the following year for every year that the company remains listed on the PSE, covering all relevant information for the preceding year.

The I-ACGR supersedes the ACGR last submitted for the year 2016 to the Philippine SEC and the Compliance Report on Corporate Governance last submitted for the year 2016 to the PSE. The Issuer submitted its I-ACGR for the year 2018 on May 30, 2019. For the fiscal year 2019, the Issuer submitted its I- ACGR on September 1, 2020, or within the extended deadline set by the Philippine SEC. For the fiscal year 2020, the Issuer submitted its I-ACGR on July 1, 2021.

As of December 31, 2020, the Issuer has substantially complied with the principles and best practices contained in its Governance Manual. There were no sanctions imposed on any director, officer, or employee for non-compliance of the Governance Manual. The Issuer is taking further steps to enhance adherence to principles and practices of good corporate governance.

### **Evaluation System and Compliance**

As part of its system for monitoring and assessing compliance with the Governance Manual and the Governance Code, each committee is required to report regularly to the Board of Directors and the Governance Manual is subject to quarterly review. The Compliance Officer is responsible for determining and measuring compliance with the Governance Manual and the Governance Code. To strictly observe and implement the provisions of the Governance Manual, the Issuer's Board of Directors may impose penalties, after notice and hearing, on the individual directors, officers, and employees, such as censure, suspension and removal from office depending on the gravity of the offense as well as the frequency of the violation. The commission of a grave violation of the Governance Manual by any member of the Board of Directors is sufficient cause for his removal as a director.

Prior to the follow-on offering, SGP's evaluation system relied on the Integrated Annual Corporate Governance Report which has been prepared and filed with the SEC and PSE since 2013. This evaluation system sufficiently measured compliance of the Board of Directors and top-level management with its Manual of Corporate Governance considering that SGP had limited commercial operations and transactions that would require a separate and distinct evaluation system.

In addition, the Board of Directors has plans of ramping up its compliance with leading practices as can be seen from initial steps undertaken recently, such as, among others:

1. Reorganization of board committees and creation of the Related Party Transaction Committee;
2. Election of three independent directors in the seven-member Board of Directors;
3. The appointment of a lead independent director;
4. The Corporate Governance Committee is now composed of the three independent directors;
5. Appointment and election of a new President/Chief Executive Officers separate from the Chairman of the Board;
6. Introduction of a Chief Finance Office, Investor Relations Officer, Chief Audit and Risk Officer, and Related Party Transactions Officer;
7. The appointment of separate individuals as Corporate Secretary and as Compliance Officer;
8. The newly-appointed Corporate Secretary who is not a member of the Board of Directors;
9. Holding of separate audit committee meeting for the approval of recommendation for the appointment of external auditor;
10. Prompt compliance of SGP with mandatory and periodical disclosures; and
11. Adoption of dividend policy.

There are no material deviations from the Company's Manual of Corporate Governance and the relevant rules and Code of Corporate Governance for Publicly Listed Companies since 2013.

In view of the Offer and restructuring of SGP, SGP plans to further improve and strengthen its compliance with its Manual of Corporate Governance and the Code of Corporate Governance for Publicly Listed Companies.

### **Related Party Transactions Policy**

The Issuer has adopted a related party transactions policy manual ("**RPT Policy**") that sets out the guidelines, categories, and thresholds that will govern the review and approval of any related party transaction ("**RPT**") by the Board of Directors and/or the shareholders. It seeks to ensure that related party relationships have been accounted for and disclosed in accordance with prevailing Philippine Accounting Standards and the Rules of the Securities and Exchange Commission on Material Related Party Transactions.

The Board of Directors has the overall responsibility in ensuring that RPTs are handled in a sound and prudent manner, with integrity, and in effective compliance with applicable laws, rules and regulations and the RPT Policy at all times, to protect the interests of the Issuer, its shareholders and other stakeholders. The RPT Policy aims to mitigate or avoid conflict of interest and abusive transactions between related parties, and ensure that every RPT is reviewed, approved, and disclosed in compliance with the requirements of regulatory bodies.

All individual material RPTs require the approval of at least two-thirds of the members of the Board of Directors, with at least a majority of the independent directors voting to approve the same. In case that a majority of the independent directors' vote is not secured, the material RPT may be ratified by the vote of stockholders representing at least two-thirds of the outstanding capital stock.

The Issuer's Compliance Officer is tasked to ensure compliance with rules and regulations governing RPTs. He or she shall aid in the review of the Issuer's transactions and identify any potential material RPT that would require review by the Board of Directors. He or she shall ensure that the RPT Policy is kept updated and properly implemented throughout the Issuer.

### **Committees of the Board**

The Board created and appointed Board members to each of the committees listed below. The members of the respective committees named below hold office as of August 10, 2021, and each of them will serve until his or her successor is elected and qualified.

#### ***Audit and Risk Committee***

The Audit and Risk Committee is responsible for overseeing the Company's financial reporting, internal control system, enterprise risk management systems, internal and external audit processes, and compliance with applicable laws and regulations.

Prior to the creation of the Related Party Transaction Committee, the Audit and Risk Committee monitored and reviewed all related party transactions to manage possible conflicts of interest.

The Audit and Risk Committee is comprised of at least three (3) qualified non-executive directors, the majority of whom, including the Chairman, is independent. The members of the Audit and Risk Committee are:

- Luis Jose P. Ferrer – (Chairman/ Independent Director)
- Francis Saturnino C. Juan – (Independent Director)
- Vicente D. Gerochi IV – (Director)

#### ***Corporate Governance Committee***

The Corporate Governance Committee assists the Board in the performance of its corporate governance responsibilities and ensures compliance with, and proper observance of, corporate governance principles and practices.

Under its committee charter, the Corporate Governance Committee's functions include the following: (i) oversee the implementation of the corporate governance framework; (ii) oversee the performance evaluation of the Board and its committees as well as executive management; (iii) provides recommendation on continuing education/training programs for directors, assignment of tasks/projects to board committees, succession planning, and remuneration packages; (iv) adopts and reviews corporate governance policies; and (v) determines the nomination and election process and the remuneration of directors and officers of the Issuer.

The Corporate Governance Committee is composed of at least three directors, majority of whom shall be independent directors, including the Chairman. The members of the Corporate Governance Committee are:

- Francis Saturnino C. Juan (Chairman/ Independent Director)
- Jose Perpetuo M. Lotilla (Independent Director)
- Luis Jose P. Ferrer (Independent Director)

#### ***Related Party Transaction Committee***

The Related Party Transaction Committee assists the Board in formulating and implementing policies that would ensure the integrity and transparency of related party transactions between and among the Corporation, joint ventures, subsidiaries, associates, affiliates, major shareholders, officers and directors, including their spouses, children and dependent siblings, and parents, and of interlocking director relationship by members of the Board.

The Related Party Transaction Committee is composed of at least three non-executive directors, two of whom should be independent, including the Chairman. The members of the Related Party Transaction Committee are:

- Jose Perpetuo M. Lotilla (Chairman/ Independent Director)
- Luis Jose P. Ferrer (Independent Director)
- Francis Saturnino C. Juan (Independent Director)

## NGCP

### Board of Directors

The following table sets forth the Board of Directors of NGCP:

<u>Name</u>	<u>Position</u>	<u>Citizenship</u>
Zhu Guangchao	Chairman of the Board of Directors	Chinese
Robert G. Coyiuto, Jr.	Vice-Chairman	Filipino
Henry T. Sy, Jr.	Vice-Chairman	Filipino
Jose T. Pardo	Member	Filipino
Francis Chua	Member	Filipino
Anthony L. Almeda	Member	Filipino
Paul P. Sagayo, Jr.	Member	Filipino
Yao Yousheng	Member	Chinese
Liu Ming	Member	Chinese
Liu Xinhua	Member	Chinese

The following states the business experience of NGCP's incumbent directors for the last five years:

**Zhu Guangchao** is also the Vice Chief Engineer and Director General of International Cooperation Department of the State Grid Corporation of China (SGCC), Vice Chairman of Redes Energeticas Nacionais, SGPS, S.A. in Lisbon, Portugal, and Board Director of the Hongkong Electric Company. He previously served as Chief Executive Advisor and Director of NGCP from January 2008 to June 2009, as Managing Director, President and CEO of the State Grid International Development Limited ("SGID") from December 2011 to December 2015, as Senior Vice President of SGID from March 2010 to December 2011, as Director General of International Cooperation Department of SGCC and Director of SGID, respectively, from June 2009 to March 2010, as Deputy Director General of SGCC's Philippine Office, as Deputy Director General of Finance Department of SGCC from November 2005 to January 2008, as President of Tai'an Power Supply Company from 2004, and as Vice President of Rizhao Power Supply Company from 1996. He graduated from Shangdong University with a master's degree in Electric Engineering.

**Robert G. Coyiuto, Jr.** is the Chairman of the Board of Prudential Guarantee & Assurance, Inc. He is the Vice Chairman of the Board of Directors of the Issuer. He holds the following positions in other companies, including publicly listed companies: Director, Chairman, President, Calaca High Power Corporation; Director, Chairman, President, Pacifica 21 Holdings, Inc.; Director, PGA Cars, Inc.; Director, PGA Holdings, Inc.; Director, Chairman, Automaxx Resources Group, Inc.; Director, Chairman, Autoextreme Performance Inc.; Director, Carrera M. Café, Inc.; Director, Chairman, Prestigio Realty, Inc.; Director, Chairman Emeritus, Motor and Carriage, Inc.; Director, Vice Chairman, Motor and Carriage Insurance Agency Corporation; Director, Vice Chairman, First Life Financial Co., Inc.; Director, President, Chief Operating Officer, Oriental Petroleum & Minerals Corporation; Director; Chairman, PGA Sampo Insurance Corporation; Director, Canon Marketing (Philippines), Inc.; Director, Petrogen Insurance Corporation. He is a Presidential Adviser on Capital Market Development, a Member of Philippine Stock Exchange, and Founding Principal of Porsche Training and Recruitment Center Asia. He received his undergraduate degree in Commerce, Major in Management, from San Beda College.

**Henry T. Sy, Jr.** is the Chairman of the Board and Chief Executive Officer of SM Development Corporation. He is also the Chairman of SM Prime Holdings, Inc. and Vice Chairman of SM Investments Corporation. He is the Chairman of the Board of the Issuer. He holds the following positions in other companies, including publicly listed companies: Chairman, Pico de Loro Beach 7 Country Club; Director, Chairman, President, Monte Oro Grid Resources Corporation; Director, Chairman, President, OneTaipan Holdings, Inc.; Chairman, Bigboss Cement Inc.; Director, Bigboss Holdings, Inc.; Chairman, President, Cutad, Inc.; Chairman, President, HSBB, Inc.; Chairman, President, Chief Executive Officer, Kingdom888 Holdings, Inc.; Chairman, President, Multi-Realty

Development Corp.; Chairman, President, PJ Realty Development Corp.; and Director, Sybase Equity Investment Corp. He received his undergraduate degree in Management from Dela Salle College.

**Jose Trinidad Pardo** is the Chairman and Independent Director of the Philippine Stock Exchange, Philippine Savings Bank, Philippine Seven Corporation, Bank of Commerce, and Securities Clearing Corporation of the Philippines. He is an Independent Director of JG Summit Holdings, Inc., Del Monte Philippines, Inc., Araneta Hotels, Inc., and League One Finance and Leasing Corporation. He sits as the Chairman of the ECOP Council of Business Leaders, PCCI Council of Business Leaders, and as a Director for ZNN Radio Veritas Foundation. In the past, he has served as Director for San Miguel Purefoods, Inc., GMA Network, Inc., Metropolitan Bank Trust Company, C.C. Unson Co., Inc., Mabuhay Philippine Satellite Corporation, and Coca-Cola Bottlers Philippines, Inc. He has served in various government positions including Secretary of Finance, Secretary of Trade and Industry, and Member of the Bangko Sentral Monetary Board. Mr. Pardo obtained his Bachelor of Science in Commerce, and his master's degree in Business Administration from De La Salle University. He completed the Basic Course on Corporate Governance of the Asian Institute of Management and has been conferred a degree of Doctor of Humanities, honoris causa, by Gregorio Araneta University Foundation, a degree of Doctor of Science in Finance, honoris causa, by De La Salle University, and an Honorary Doctorate by the Academy of Multi-Skills, United Kingdom.

**Francis Chua** is a Director of DITO CME Holdings Corp., DITO Telecommunity Corporation, the Philippine Stock Exchange, Global Gerronickel Inc., and Platinum Group Metals Corp. He is the Vice Chairman of 2GO Group Inc., Basic Energy Corporation, and Pan Pacific Energy Corp.; the Vice Chairman and Executive Committee Chair of the Bank of Commerce; the Chairman of, Columbus Capitana, and DongFeng Automotive Inc.; the Founding Chairman of BA Securities, Inc.; and the President of the Philippine Satellite Corporation. He also served as trustee in various educational institutions including Central Luzon State University, Adamson University, Quanzhou University, Fuzhou University, and Xavier School, as well as in the Boards of Regent of the University of the Philippines and the Universidad de Manila. He has served in various government positions including as Commissioner in the Presidential Anti-Organized Crime Commission, Special Envoy to China for Trade and Investments, Honorary Trade and Investment Representative of the Department of Trade and Industry, and Special Adviser on Economic Affairs of the Office of the Speaker of the House of Representatives. He received his Bachelor of Science in Industrial Engineering from the University of the Philippines, He has been conferred the degree of Doctor of Humanities, honoris causa, by the Central Luzon State University, degree of Doctor of Business Technology, honoris causa, by the Eulogio Amang Rodriguez Institute of Science and Technology, and a Doctorate Fellowship Award by the Academy of Multi-Skills, United Kingdom.

**Anthony L. Almeda** is the President, Chief Executive Officer and Chief Administrative Officer of NGCP. He is also a Director and the Chairman and Chief Executive Officer of ALAlmeda & Company, Inc., One Square Meter, Inc. and Chain block Inc. He is a Director of Pacifica 21 Holdings Inc., Alameda Energy Inc. and an Independent Director of HatchAsia Inc. He is a member of the Philippines Chamber of Commerce and Industry, the Management Association of the Philippines, the People Management Association of the Philippines and the Makati Business Club. He received his Bachelor of Science in Management from St. Michael College of Laguna and completed the Strategic Business Economic Program of the University of Asia and the Pacific. He is currently attending De La Salle College of Saint Benilde to earn a diploma in Real Estate Management.

**Paul P. Sagayo, Jr.** is a Director and the President of the Issuer. He is a partner at Sagayo, Evangelista and Rebuella Law Offices. He is a Director of National Grid Corporation of the Philippines. He holds the following positions in other companies: Director and Corporate Secretary, Calaca High Power Corporation; Director and Corporate Secretary, Pacifica21 Holdings, Inc.; Corporate Secretary, Beneficial Life Insurance, Inc.; Board of Trustees Secretary, Trinity University of Asia; Member of the Board, ETC Realty Corporation. He was also a director of the Capital Markets Integrity Corporation and tendered his resignation from such position on October 14, 2021 in compliance with the requirements of the Philippine SEC in connection with the Offer. He obtained his law degree from San Beda College of Law.

**Yao Yousheng** is the Chief Representative of SGCC's Philippine Office. He is an Engineer with a Doctorate in Technical Economics and Management. Since 2007, he has been involved in the international operations of overseas power companies of SGCC. His previous work experience covered the areas of insurance, trust, finance, audit, and corporate administration.

**Liu Ming** is the Vice Chief Representative of SGCC's Philippine Office, and a Board Director of Electranet in South Australia. He has previously served as the Chief Representative of SGCC's Africa Office, Board Director of SGCC's Australia Office, and various key posts in SGCC's Head Office including Senior Engineer, Secretary

Engineer, and Dispatcher Engineer. He received his bachelor’s degree, major in Power system and Automation Study, from the Northeast Electric Power University.

**Liu Xinhua** has previously served in various key posts in SGCC’s subsidiaries including Accounting Staff, Finance Supervisor, Finance Manager, Deputy Manager and Manager. He received his bachelor’s degree, Major in Technological Economics, and his master’s degree, major in Management Science and Engineering, from Wuhan University of Hydraulic and Electric Engineering. He is a Certified Public Accountant in China.

### Senior Management of NGCP

The following table sets forth the senior executive officers (“**Senior Management**”) of NGCP:

<b>Name</b>	<b>Position</b>	<b>Citizenship</b>
Anthony L. Almeda	President and Chief Executive Officer; concurrent Chief Administrative Officer	Filipino
Nanette Nancy G. Bugnosen	Chief Finance Officer	Filipino
Ma. Cynthia Y. Manrique	Vice President and Head of Revenue and Regulatory Affairs	Filipino
Rico C. Vega	Officer In Charge – Chief Technical Officer and concurrent Vice President of Planning and Engineering	Filipino
Cesar V. Sanchez	Vice President of Operations and Maintenance	Filipino
Luis Manuel U. Bugayong	Vice President and General Counsel	Filipino
Edwin M. Natividad	Vice President and Head of Internal Audit	Filipino
Mark Joseph S. Andeo	Vice President and Head of Central Project Office	Filipino
Gildo R. Listano	Vice President and Head of NCR Operations and Maintenance	Filipino
Karen S. Ong	Corporate Secretary	Filipino
Ronald Dylan P. Concepcion	Assistant Corporate Secretary	Filipino
Leonor Felipa Cynthia P. Alabanza	Head of Public Relations	Filipino

**Anthony L. Almeda** is the President, Chief Executive Officer and Chief Administrative Officer of NGCP. He is also a Director and the Chairman and Chief Executive Officer of ALAlmeda & Company, Inc., One Square Meter, Inc. and Chain block Inc. He is a Director of Pacifica 21 Holdings Inc., Alameda Energy Inc. and an Independent Director of HatchAsia Inc. He is a member of the Philippines Chamber of Commerce and Industry, the Management Association of the Philippines, the People Management Association of the Philippines and the Makati Business Club. He received his Bachelor of Science in Management from St. Michael College of Laguna and completed the Strategic Business Economic Program of the University of Asia and the Pacific. He is currently attending De La Salle College of Saint Benilde to earn a diploma in Real Estate Management.

**Nanette Nancy G. Bugnosen** is the Chief Finance Officer of NGCP. Ms. Bugnosen has worked for NGCP for 10 years and has been the Chief Finance Officer since September 2010. Prior to joining NGCP, she worked with various corporations including Mizuho Corp. Bank, Ltd., Solid Bank Corp, and CitiTrust Banking Corp. She also worked as audit staff in SyCip, Gorres, Velayo & Co.

**Ma. Cynthia Y. Manrique** is the Vice President and Head of Revenue and Regulatory Affairs of NGCP. She has been with NGCP for 12 years and has been the Vice President and Head of Revenue and Regulatory Affairs since December 2010. Prior to joining NGCP, she worked for the National Transmission Corporation as Division Manager, and later as Deputy Head of the Revenue and Regulatory Affairs Department. She also previously worked for the National Power Corporation as Senior Financial Analyst, and later as Senior Budget Specialist.

**Rico C. Vega** is the Chief Technical Officer and concurrent Vice President of Planning and Engineering of NGCP. He has worked with NGCP for 12 years and has been the Chief Technical Officer and concurrent Vice President of Planning and Engineering since April 2021. He has previously worked as a Division Manager in the National Transmission Corporation and as Principal Engineer in the National Power Corporation.

**Cesar V. Sanchez** is the Vice President of Operations and Maintenance of NGCP. Mr. Sanchez has worked with NGCP for 12 years and as Vice President of Operations and Maintenance since March 2021. He has held various positions in NGCP’s Mindanao Operations and Maintenance, and later in as the Head of Operations and Maintenance Management. Prior to joining NGCP, he worked as an engineer for the National Transmission Corporation, and earlier for the National Power Corporation.

**Luis Manuel U. Bugayong** is the Vice President and General Counsel of NGCP. He has been with NGCP for 12 years and has been the Vice President and General Counsel since June 2011. Prior to joining NGCP, he served as Deputy General Counsel of the Land and Land Rights Division and Overall Deputy General Counsel of National Power Corporation as Department Manager of National Power Corporation, and as an Attorney in the Energy Regulatory Board. He was a Partner in Dechavez Bugayong Concepcion & Associates Law Offices.

**Edwin M. Natividad** is the Vice President and Head of Internal Audit of NGCP. He has been with NGCP for 5 years and has been the Vice President and Head of Internal Audit since January 2016. Prior to joining NGCP, he served as the Chief Audit Executive of ABS-CBN Corporation, Head of Internal Audit of Smart Communications, Inc., Head of the Regional Audit of Astro Malaysia Holdings Bhd. and Chief Audit Executive of Aboitiz Transport System Corporation.

**Mark Joseph S. Andeo** is the Vice President and Head of Central Project Office of NGCP. He has worked with NGCP for 6 years.

**Gildo R. Listano** is the Vice President and Head of NCR Operations and Maintenance of NGCP. Mr. Listano has worked with NGCP for 12 years and has held his current position since October 2019. He has previously served as Department Manager for Operations and Maintenance Management Department, and Visayas Operations and Maintenance Department. Prior to joining NGCP, Mr. Listano worked with the National Power Corporation in various positions from draftsman, technician, technical analyst, superintendent up to Department Manager.

**Karen S. Ong** is the Corporate Secretary of NGCP. She has been with NGCP for 12 years and has been Corporate Secretary since February 2009. Prior to joining NGCP, she has served as legal consultant for various government agencies including the World Bank - Government Procurement Policy Board Technical Support Office, the Office of the Presidential Adviser on Strategic Projects, the Department of Environment and Natural Resources. Ms. Ong was a Junior Associate in Carpio, Villaraza & Cruz Law Offices, and later a Partner in Ong & Associates.

**Ronald Dylan P. Concepcion** is the Assistant Corporate Secretary and Data Privacy Officer of NGCP. He has been with NGCP for 12 years and has been the Assistant Corporate Secretary since August 2011. Prior to joining NGCP, he served as Corporate Attorney of the National Power Corporation. He was a Partner in Dechavez Bugayong Concepcion & Associates Law Offices.

**Leonor Felipa Cynthia P. Alabanza** is Head of Public Relations of NGCP. She has been with NGCP for the past 12 years, serving as Head of Corporate Communications and Public Affairs from March 2013 to April 2021, and as Deputy General Counsel, Regulatory and Administration Division from April 2009 to March 2010. Prior to joining NGCP, she was a Government Corporate Attorney at the Office of the Government Corporate Counsel.

### Significant Employee of NGCP

While the Group values the contribution of each of its executive and non-executive employees, the Group believes that there is no non-executive employee that the resignation or loss of whom would have a material adverse impact on its business. Other than standard employment contracts, there are no special arrangements with non-executive employees of the Issuer.

## INTERMEDIATE HOLDING COMPANIES

### OneTaipan

The following table sets forth the Board of Directors of OneTaipan:

<u>Name</u>	<u>Position</u>	<u>Citizenship</u>
Henry T. Sy, Jr.	Chair	Filipino
Ria Mae L. Gatchallan	Member	Filipino
Vicente D. Gerochi IV	Member	Filipino
Amelita A. Nery	Member	Filipino
Pia Isabel O. Co	Member	Filipino

The following table sets forth the officers of OneTaipan:

<u>Name</u>	<u>Position</u>	<u>Citizenship</u>
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Henry T. Sy, Jr.	President	Filipino
Ria Mae L. Gatchallan	Treasurer	Filipino
Cheryl S. Saldaña-de Leon	Corporate Secretary	Filipino
Ma. Theresita D. Yulo	Finance Manager	Filipino

### Monte Oro

The following table sets forth the Board of Directors of Monte Oro:

<u>Name</u>	<u>Position</u>	<u>Citizenship</u>
Henry T. Sy, Jr.	Chair	Filipino
Ria Mae L. Gatchallan	Member	Filipino
Vicente D. Gerochi IV	Member	Filipino
Amelita A. Nery	Member	Filipino
Cheryl S. Saldaña-de Leon	Member	Filipino

The following table sets forth the officers of Monte Oro:

<u>Name</u>	<u>Position</u>	<u>Citizenship</u>
Henry T. Sy, Jr.	President	Filipino
Ria Mae L. Gatchallan	Treasurer	Filipino
Cheryl S. Saldaña-de Leon	Corporate Secretary	Filipino
Ma. Theresita D. Yulo	Financial Manager	Filipino

### Pacifica21

The following table sets forth the Board of Directors of Pacifica21:

<u>Name</u>	<u>Position</u>	<u>Citizenship</u>
Robert G. Coyiuto, Jr.	Chair	Filipino
Anthony L. Almeda	Member	Filipino
Paul P. Sagayo, Jr.	Member	Filipino
Cheryl S. Saldaña-de Leon	Member	Filipino
Pia Isabel O. Co	Member	Filipino

The following table sets forth the officers of Pacifica21:

<u>Name</u>	<u>Position</u>	<u>Citizenship</u>
Robert G. Coyiuto, Jr.	President	Filipino
Anthony L. Almeda	Treasurer	Filipino
Cheryl S. Saldaña-de Leon	Corporate Secretary	Filipino
Ma. Theresita D. Yulo	Finance Manager	Filipino

### Calaca

The following table sets forth the Board of Directors of Calaca:

<u>Name</u>	<u>Position</u>	<u>Citizenship</u>
Robert G. Coyiuto, Jr.	Chair	Filipino
Anthony L. Almeda	Member	Filipino
Paul P. Sagayo, Jr.	Member	Filipino
Cheryl S. Saldaña-de Leon	Member	Filipino
Pia Isabel O. Co	Member	Filipino

The following table sets forth the officers of Calaca:

<u>Name</u>	<u>Position</u>	<u>Citizenship</u>
Robert G. Coyiuto, Jr.	President	Filipino
Anthony L. Almeda	Treasurer	Filipino
Cheryl S. Saldaña-de Leon	Corporate Secretary	Filipino
Ma. Theresita D. Yulo	Finance Manager	Filipino

## CORPORATE GOVERNANCE FRAMEWORK

The Board has adopted the Manual on Corporate Governance (“**Manual**”), which institutionalizes the principles of good corporate governance in the entire organization. The Issuer believes that it is a necessary component of sound strategic business management, hence, the Issuer undertakes efforts to create awareness within the organization. To ensure adherence to corporate principles and best practices of good corporate governance, the Compliance Officer monitors compliance with the provisions and requirements of the Manual.

The Manual provides that it is the Board that has the primary responsibility for the governance of the corporation. In addition to setting the policies for the accomplishment of corporate objectives, it has the duty to provide an independent check on the Management. The Board is mandated to attend its regular and special meetings in person or through teleconferencing.

In adopting the Manual, the Issuer understands the responsibilities of the Board and its members, in governing the conduct of its business, the Board Committees, in focusing on specific board functions to aid in the optimal performance of its roles and responsibilities, and the officers, in ensuring adherence to corporate principles and best practices. See “*Risk Factors—Risks Relating to NGCP and its Operations—The majority shareholders of NGCP may exert substantial influence over NGCP, their interests may not be the same as those of other shareholders and possible disagreements may arise among NGCP’s major shareholders*” on page 56.

## SUMMARY OF EXECUTIVE COMPENSATION OF DIRECTORS AND EXECUTIVE OFFICERS

For the calendar years ended 2020, 2019, and 2018, the total salaries, allowances, and bonuses paid to the directors and executive officers of the Issuer are as follows:

	Year	Salary (₱)	Bonus (₱)	Other Annual Compensation	Total (₱)
President and CEO and top four most highly compensated executive officers (total compensation)	2018	0.00	0.00	0.00	0.00
	2019	0.00	0.00	0.00	0.00
	2020	0.00	0.00	0.00	0.00
	Projected 2021	11,159,312.00	924,776.00	11,000,000.00	23,084,088.00

The directors and executive officers of SGP did not receive any compensation prior to August 2021. Prior to the implementation of this Offer, the Comptroller was not classified as an Executive Officer as she was the only employee of the Company.

At the Special Meeting of the Board of Directors held on August 10, 2021, the Board approved a schedule of per diem compensation for its members as discussed below. At the Organizational Meeting of the Board of Directors held on September 27, 2021, the Board, upon recommendation of the Corporate Governance Committee, approved the executive compensation of the Chairman, Vice Chairman, President and CEO, and Treasurer, CFO, and IRO. The compensation of ₱23,084,088.00 pertains to the total compensation of the Chairman, Vice Chairman, President and CEO, and Treasurer, CFO, IRO, and Comptroller.

### Compensation of Directors

Other than a per diem of ₱50,000 per Board meeting, a per diem of ₱40,000 per Committee meeting for the relevant Committee Chairman and a per diem of ₱30,000 per Committee meeting for the relevant Committee members, effective after August 10, 2021, there is no arrangement pursuant to which directors of the Company are compensated or are to be compensated, directly or indirectly, for any services provided as a director, including any additional amounts payable for committee participation or special assignments, for the last completed fiscal year and the ensuing year.

There are no other arrangements, including consulting contracts, pursuant to which any director of the Company was compensated, or is to be compensated, directly or indirectly, during the Company's last completed fiscal year, and the ensuing year, for any service provided as a director.

## PRINCIPAL AND SELLING SHAREHOLDERS AND SECURITY OWNERSHIP OF MANAGEMENT

### PRINCIPAL SHAREHOLDERS

As of the date of this Prospectus, the following are the owners of our capital stock in excess of 5% of total issued and outstanding shares:

<u>Title of Class</u>	<u>Name and Address of Record Owner and Relationship with Issuer</u>	<u>Name of Beneficial Owner and Relationship with Record Owner</u>	<u>Citizenship</u>	<u>Number of Shares</u>	<u>Percentage of Class</u>
Common Shares	<b>Henry T. Sy, Jr.</b> 10/F L.V. Locsin Building, 6752 Ayala Avenue, Makati City, Philippines	Henry T. Sy, Jr.	Filipino	2,103,464,288 (R & B)	49.94%
	Director, Chairman of the Board of Directors				
Common Shares	<b>Robert G. Coyiuto, Jr.</b> 201 Epifanio Delos Santos Avenue, Mandaluyong City, Philippines	Robert G. Coyiuto, Jr	Filipino	2,098,268,450 (R & B)	49.81%
	Director, Vice Chairman of the Board of Directors				

Note: Nature of ownership is indicated as (R) for record owner and (B) for beneficial owners.

The Issuer has approximately 146 stockholders as of June 30, 2021.

### SELLING SHAREHOLDERS

The Selling Shareholders are Mr. Henry T. Sy, Jr. and Mr. Robert G. Coyiuto, Jr. The following table sets forth, for the Selling Shareholders, the number of Common Shares and percentage of outstanding shares held before the Offer, the number of shares and percentage of outstanding shares owned immediately after the Offer (assuming the Overallotment Option is not exercised), and number of shares and percentage of outstanding shares owned immediately after the Offer (assuming the Overallotment Option is fully exercised).

In the event of the exercise of the Overallotment Option, Mr. Sy may sell up to 53,000,000 existing Common Shares and Mr. Coyiuto may sell up to 48,000,000 existing Common Shares.

<u>Selling Shareholder</u>	<u>Shareholding before the Offer<sup>(1)</sup></u>	<u>% of Shares Outstanding before the Offer</u>	<u>Shareholding following completion of the Offer (assuming Overallotment Option is not exercised)</u>	<u>% of Shares Outstanding following completion of the Offer (assuming Overallotment Option is not Exercised)</u>	<u>Shareholding following completion of the Offer (assuming Overallotment Option is fully exercised)</u>	<u>% of Shares Outstanding following completion of the Offer (assuming Overallotment Option is fully Exercised)</u>
Mr. Henry T. Sy, Jr.	2,103,464,288	49.93	2,103,464,288	39.95	2,050,464,288	38.94
Mr. Robert G. Coyiuto, Jr.	2,098,268,450	49.81	2,098,268,450	39.85	2,050,268,450	38.94

Note: (1) After the approval by the Philippine SEC of the Capital Increase on August 25, 2021. Prior to the Capital Increase, the shareholding of Mr. Sy and Mr. Coyiuto was 2,072,214,288 Common Shares and 2,067,018,450 Common Shares, respectively.

## SECURITY OWNERSHIP OF MANAGEMENT

As of the date of this Prospectus, the following are the shareholdings of the Board of Directors and Senior Management. Under the Revised Corporation Code, each director is required to hold at least one share in his/her name in the books of the corporation to qualify as a member of the Board of Directors.

<u>Title of Class</u>	<u>Name of Beneficial Owner</u>	<u>Position</u>	<u>Citizenship</u>	<u>Amount and Nature of Beneficial Ownership</u>	<u>Percentage of Total Outstanding Shares</u>
Common	Henry T. Sy, Jr.	Chairman of the Board	Filipino	2,103,464,288/ Direct	49.93%
Common	Robert G. Coyiuto, Jr.	Director / Vice Chairman of the Board	Filipino	2,098,268,450/ Direct	49.81%
Common	Jose Perpetuo M. Lotilla	Independent Director	Filipino	1 / Direct	0.00%
Common	Luis Jose P. Ferrer	Independent Director	Filipino	1 / Direct	0.00%
Common	Francis Saturnino C. Juan	Independent Director	Filipino	1 / Direct	0.00%
Common	Paul P. Sagayo, Jr.	Director, President and CEO	Filipino	1 / Direct	0.00%
Common	Vicente D. Gerochi IV	Director	Filipino	1 / Direct	0.00%
Common	Cheryl S. Saldaña-de Leon	Corporate Secretary	Filipino	7 / Direct	0.00%
			<b>TOTAL</b>	<b>4,201,732,750</b>	<b>99.74%</b>

Except for the foregoing, no other members of the Board or Senior Management own any shares in SGP.

## VOTING TRUST HOLDERS OF 5% OR MORE

The Issuer is not aware of any person holding five percent (5%) or more of the Issuer's outstanding shares under a voting trust agreement or similar agreement.

## CHANGES IN CONTROL

There are no arrangements that may result in a change in control of the Issuer.

## THE SHARE SWAP TRANSACTION

On November 14, 2019, the Board of Directors of SGP resolved and approved that, upon approval by the Philippine SEC of its increase in authorized capital stock, 4,100,400,000 common shares of the Issuer, which will be created and issued out of such increase in authorized capital stock, will be issued at a price of ₱20.00 per share in exchange for 67% the outstanding shares of each of OneTaipan and Pacifica21 (the "Share Swap").

The Board of Directors also approved the execution of any and all agreements and documents as may be necessary in connection with the said share swap, and designated the officers and other persons authorized to sign for and on behalf of the Issuer.

- Mr. Henry T. Sy, Jr., who is the Chairman of the Board of Directors, and who at that time held 44.50% of the outstanding capital stock of the Issuer, is also a Director and the controlling shareholder of OneTaipan. Hence, Henry T. Sy, Jr. has substantial interests in both the Issuer and OneTaipan. Accordingly, Mr. Sy abstained in the voting on the proposed share swap.

- Mr. Robert G. Coyiuto, Jr., who is a Director of the Issuer, and who at that time beneficially owned 34% of its outstanding capital stock, is also a Director and the controlling shareholder of Pacifica21. Hence, Mr. Coyiuto has substantial interests in both the Issuer and Pacifica21. Accordingly, Mr. Coyiuto likewise abstained in the voting on the proposed share swap.

The Share Swap involved the issuance of the Issuer's common shares in exchange for shares in OneTaipan and Pacifica21. Specifically, 2,050,200,000 common shares of the Issuer were swapped with 86,430,000 common shares of OneTaipan legally and beneficially owned by Mr. Sy. Additionally, 2,050,200,000 common shares of the Issuer were swapped with 871,000,000 common shares of Pacifica21 legally and beneficially owned by Mr. Coyiuto.

The Board of Directors requested the stockholders of the Issuer to approve the share swap without need of a rights offering. During the annual stockholders' meeting held on December 20, 2019, the stockholders approved the share swap transaction and the additional listing with the PSE of shares issued in connection with the Share Swap. Since the Share Swap involved related parties and the additional listing of shares are subject to the conduct of a rights or public offering, at least a majority of the minority stockholders approved the waiver of the conduct of rights and public offering. In the same meeting, the stockholders approved the Issuer's increase in authorized capital stock.

In this connection, Mr. Sy, Mr. Coyiuto and the Issuer entered into a Deed of Exchange of Shares and Subscription Agreement ("**Deed**") dated as of September 3, 2020<sup>4</sup> pursuant to which, the Share Swap or exchange of shares would become effective upon approval by the Philippine SEC of the increase in authorized capital stock of the Issuer.

The Share Swap was completed on May 28, 2021, upon the approval by the Philippine SEC of the increase in the Issuer's authorized capital stock. As a result thereof, the Issuer issued 2,050,200,000 common shares to each of Mr. Sy and Mr. Coyiuto.

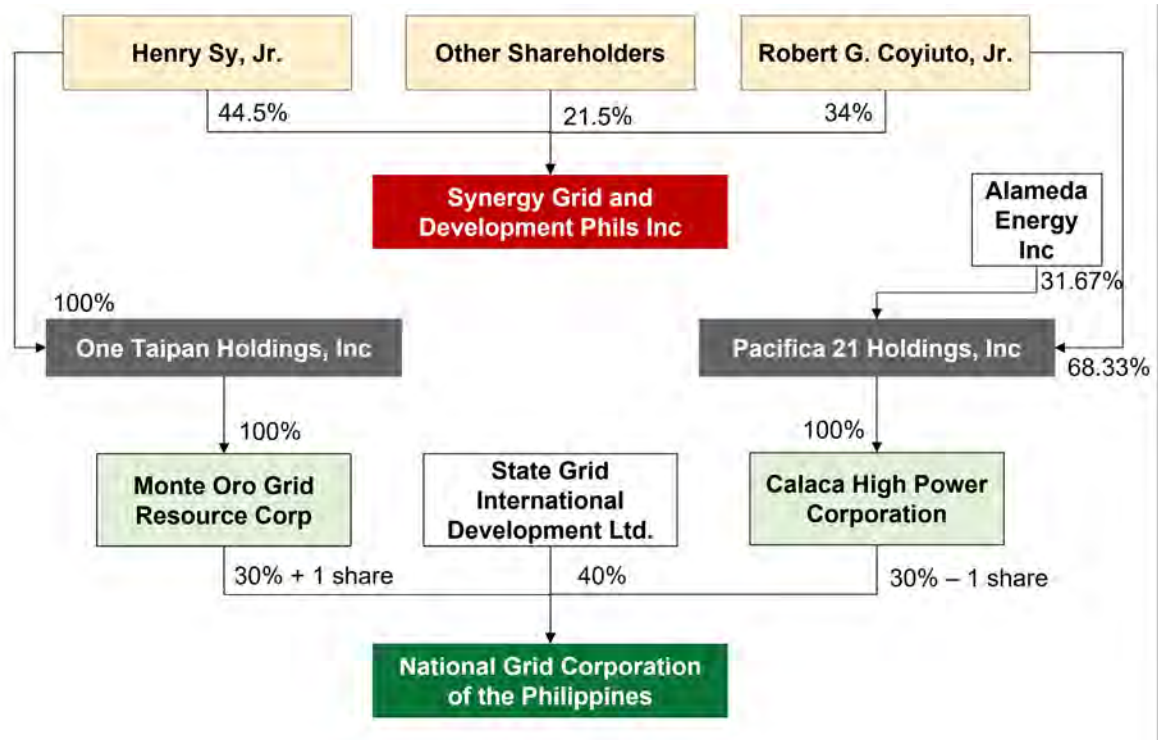
After completion of the Share Swap, the Issuer became the beneficial owner of 67% of the outstanding shares of each of Pacifica21 and OneTaipan. Mr. Sy and Mr. Coyiuto separately submitted in June 2021 applications with the BIR for certificates authorizing registration of the transfers of such shares to SGP. On August 6, 2021, the BIR issued a certification confirming that the transfers qualify as a tax-free exchange under Section 40(c)(2) of the National Internal Revenue Code of the Philippines, as amended. On August 12, 2021, the BIR issued a certificate authorizing registration of the transfer of the 67% Pacifica21 shares to the Issuer. On September 10, 2021, the BIR issued a certificate authorizing registration of the transfer of the 67% OneTaipan shares to the Issuer. The Issuer is thus registered as owner of 67% of the outstanding shares of Pacifica21 and OneTaipan in the respective books of these companies.

Pacifica21 wholly owns shares in Calaca, which in turn owns 30% minus one share in NGCP. OneTaipan wholly owns shares in Monte Oro, which holds 30% plus one share in NGCP. The Share Swap was undertaken to formally consolidate Mr. Sy's and Mr. Coyiuto's ownership and control of NGCP through a common corporate structure.

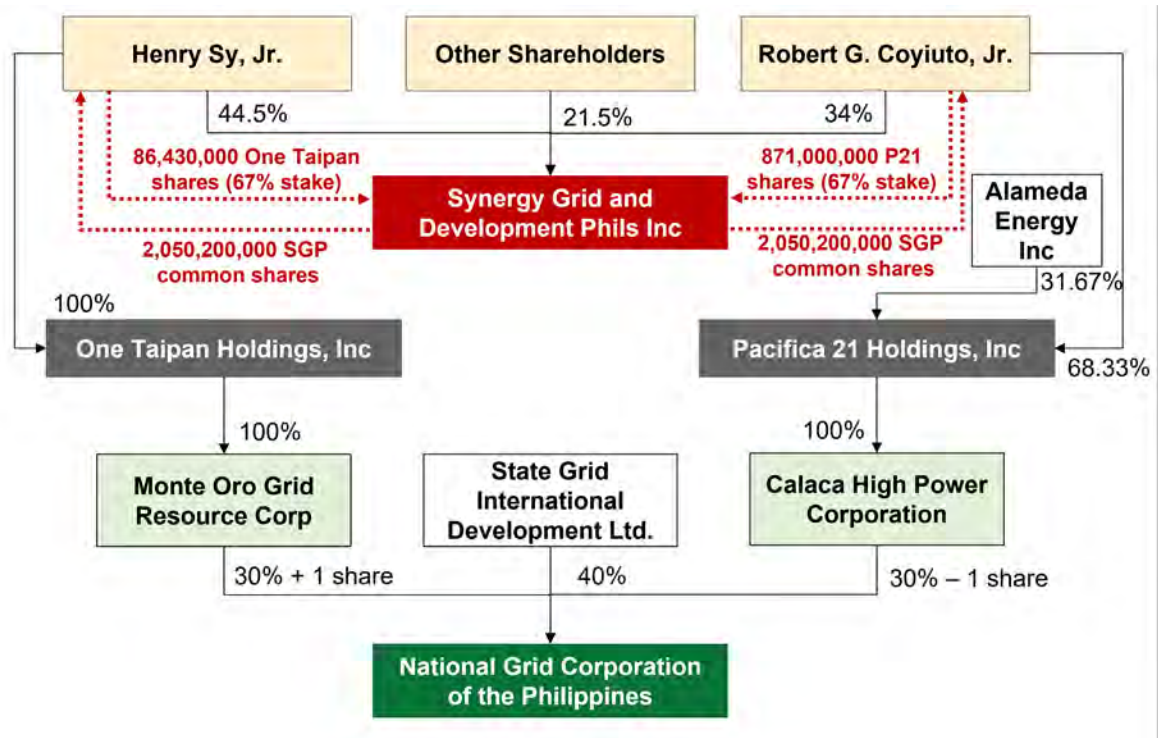
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<sup>4</sup> The Deed was executed in counterparts by the parties. Mr. Sy signed on August 17, 2020, Mr. Coyiuto signed on August 17, 2020, and the Company's authorized representatives signed on September 3, 2020.

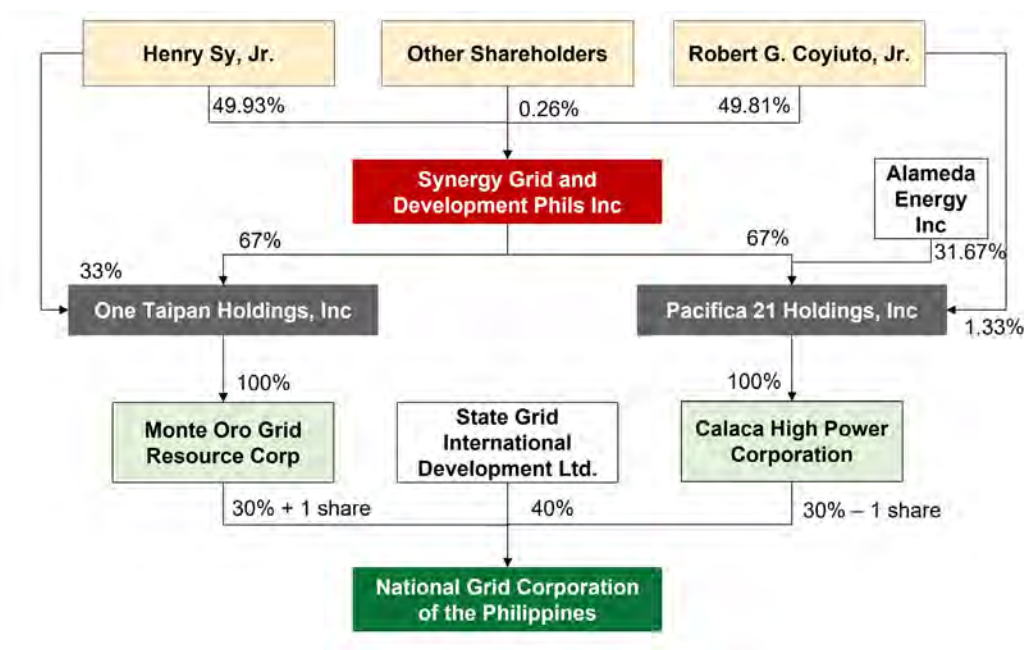
The diagram below illustrates the Group's corporate structure before the implementation of the Share Swap.



The diagram below summarizes the Share Swap:



The diagram below provides an overview of the Group's corporate structure immediately after completion of the Share Swap:

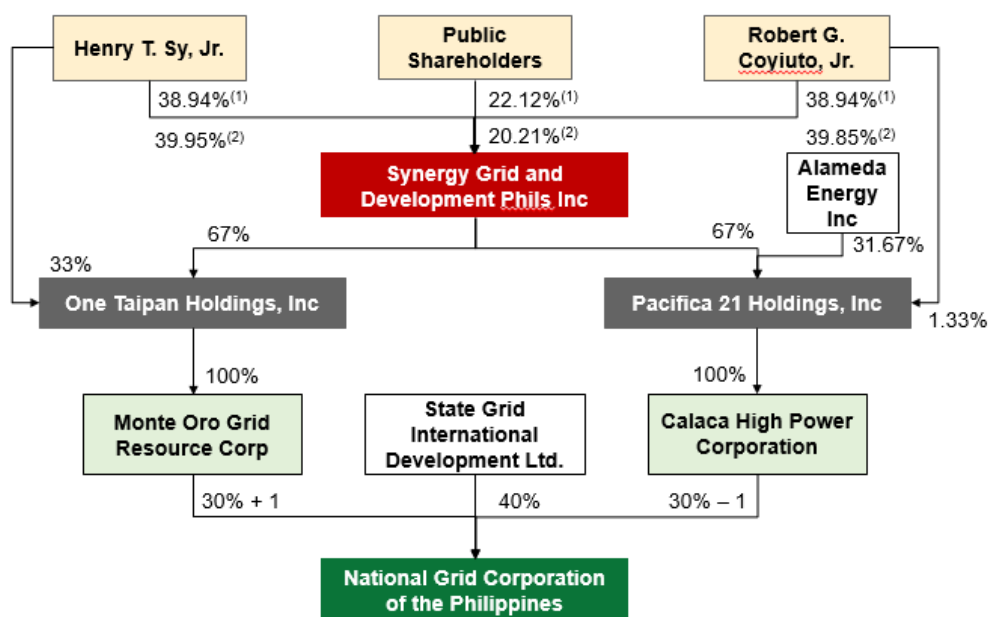


## LOCK-UP

Under PSE Listing Rules, the Principal Shareholders are required by the PSE to enter into a lock-up agreement with respect to the SGP shares issued to them in the Share Swap (i.e., the 2,050,200,000 Common Shares of SGP issued to each of the Principal Shareholders) in connection with SGP's application for additional listing filed with the PSE on August 12, 2021. This lock-up is for 180 days from date of listing of the swap shares, expected to be on same date as the Listing Date. These new Common Shares issued to the Principal Shareholders do not form part of the Option Shares and the Option Shares are not subject to any lock-up requirement.

## STRUCTURE AFTER THE OFFER

The Group structure after the Offer is as follows:



Notes: (1) Assuming the full exercise of the Overallotment Option.  
 (2) Assuming the Overallotment Option is not exercised.

## RELATED PARTY TRANSACTIONS

In the ordinary course of business, the Group enters into transactions with related parties and affiliates, principally consisting of remuneration of key management, insurance, lease agreements and shareholder advances. The policy of the Group with respect to related party transactions is to ensure that these transactions are entered on an arm's length basis and entered into on terms comparable to those available from or to unrelated third parties, as the case may be. SGP has established a Related Parties Transactions Committee to comply with the Board and shareholder voting mechanisms provided under the Revised Corporation Code and the relevant regulations of the Philippine SEC for related party transactions.

### Summary of Related Party Transactions from Audited Financial Statements

	Transactions for the 12 months ending December 31, 2020		Outstanding balance as of December 31, 2020		Transactions for the 6 months ending June 30, 2021		Outstanding balance as of June 30, 2021	
	₱	US\$	₱	US\$	₱	US\$	₱	US\$
(In millions)								
<b>Compensation of Key Management Personnel</b>								
Short-term benefits.....	322.9	6.7	-	-	182.7	3.8	-	-
Post-employment benefits.....	22.7	0.5	-	-	10.7	0.2	-	-
<b>Insurance (PGAI) .....</b>	282.1	5.8	7.9	0.2	136.5	2.8	16.1	0.3
<b>Lease Agreements (SMDC).....</b>	3.4	0.1	2.6	0.1	3.9	0.1	1.8	0.0
<b>Shareholders .....</b>	250.1	5.2	618.8	12.7	-	-	618.8	12.7

For more information, see note 20 of the 2020 audited financial statements and note 21 of the 2021 interim financial statements.

### Other Transactions

Significant related party transactions involving members of the Principal Shareholders and the Group are set out below.

#### 1. Share Swap Transaction

On November 14, 2019, the Board of Directors of the Issuer resolved and approved that, upon approval by the Philippine SEC of its increase in authorized capital stock, 4,100,400,000 common shares of the Issuer, which will be created and issued out of such increase in authorized capital stock, will be issued at a price of ₱ 20.00 per share in exchange for 67% the outstanding shares of each of OneTaipan and Pacifica21 Holdings, Inc. The Board also approved the execution of any and all agreements and documents as may be necessary in connection with the said share swap, and designated the officers and other persons authorized to sign for and on behalf of the Issuer.

During the annual stockholders' meeting held on December 20, 2019, the stockholders approved the Share Swap and the additional listing with the PSE of shares issued in connection with the Share Swap. Since the Share Swap involving related parties and the additional listing of shares are subject to the conduct of a rights or public offering, at least a majority of the minority stockholders approved the waiver of the conduct of rights and public offering. During the same meeting, the stockholders approved the Issuer's increase in authorized capital stock.

The Share Swap involved the issuance of the Issuer's common shares in exchange for shares in OneTaipan and Pacifica21. Specifically, 2,050,200,000 common shares of the Issuer were swapped with 86,430,000 common shares of OneTaipan legally and beneficially owned by Mr. Sy. Additionally, 2,050,200,000 common shares of the Issuer were swapped with 871,000,000 common shares of Pacifica21 legally and beneficially owned by Mr. Coyiuto. The share swap was undertaken to formally consolidate Mr. Sy's and Mr. Coyiuto's ownership and control of NGCP through a common corporate structure given that Pacifica21 owns controlling shares in Calaca, which in turn owns 30% minus one share in NGCP. OneTaipan owns controlling shares in Monte Oro Grid Resources Corporation, which holds 30% plus one share in NGCP.

On March 26, 2020, the Philippine Competition Commission issued its clearance on the proposed share swap transaction on the basis that it will not likely result in substantial lessening of competition in the Philippine market.

On May 28, 2021, the Philippine SEC approved the Issuer's increase of authorized capital stock, out of which the entire 4,100,400,000 common shares (or 2,050,200,000 common shares each) were issued to Mr. Sy and Mr. Coyiuto. Upon Philippine SEC approval of the increase in capital stock on May 28, 2021, the Share Swap also became effective, and the exchange of shares occurred on the said date. Accordingly, as of May 28, 2021, the Issuer became the beneficial owner of shares of stocks representing 67% of the outstanding capital stock of each of Pacifica21 and OneTaipan.

The BIR issued a Certification dated August 6, 2021, confirming that the share swap transaction is a tax-free exchange under Section 40(C)(2) of the Tax Code. The transfer of Pacifica21 shares to the Issuer has been completed, following the issuance by the BIR on August 12, 2021 of a certificate authorizing registration. On September 10, 2021, the BIR issued a certificate authorizing registration of the transfer of the 67% OneTaipan shares to the Issuer. The Issuer is thus registered as owner of 67% of the outstanding shares of Pacifica21 and OneTaipan in the respective books of these companies.

## **2. Additional Increase in Authorized Capital Stock**

On June 30, 2021, Synergy's Board of Directors approved an amendment to Synergy's Articles of Incorporation to increase its authorized capital stock from ₱5,050,000,000 divided into 5,050,000,000 Common Shares to ₱5,300,000,000 divided into 5,300,000,000 Common Shares, representing an increase of ₱250,000,000 comprising 250,000,000 Common Shares (the "**Capital Increase**"). On August 10, 2021, the stockholders of Synergy approved the amendments for the Capital Increase. To support the Capital Increase, the Principal Shareholders each subscribed to 31,250,000 Common Shares. On August 25, 2021, the Philippine SEC approved the Capital Increase. Prior to such approval, there were 4,149,866,000 Common Shares issued and outstanding. After the Philippine SEC approved the Capital Increase, the total issued and outstanding capital stock of Synergy is 4,212,366,000 Common Shares.

While the Capital Increase involved related parties, the Capital Increase is not subject to the conduct of a rights or public offering because the Capital Increase (i) only resulted in the issuance of 62,500,000 Common Shares (or 1.48% of the resulting total issued and outstanding capital stock of the Issuer), which does not meet the 10% threshold set out under Section 1 of Article V of the Consolidated Listing and Disclosure Rules of the PSE; and (ii) should not be tacked in to the issuance of Common Shares pursuant to the Share Swap because there is no creeping acquisition, given the lapse of more than 12 months from the initial disclosure of Share Swap issuance on November 14, 2019 and a waiver of the minority shareholders was obtained on December 23, 2019 in connection with the issuance of Common Shares pursuant to the Share Swap. Nevertheless, out of an abundance of caution, SGP will obtain a waiver from the minority shareholders of the rights or public offering requirement.

## **3. Shared Services Agreement**

On January 1, 2015, the Issuer entered into a Shared Services Agreement with Monte Oro and Calaca for a period of three years. Under the said agreement, the Issuer shall render monthly management consulting and financial advisory services and, in consideration of the services rendered, the Issuer receives a monthly management fee of ₱300,000 from each entity.

On March 22, 2017, the Shared Services Agreement was amended to extend the period to December 31, 2018. On February 26, 2018, the Shared Services Agreement was further amended extending the period up to December 31, 2021. The Shared Services Agreement was superseded by a Revised Shared Services Agreement entered into by the Issuer on January 1, 2019, increasing the monthly management fee to ₱500,000 for a period of three years commencing January 1, 2019, unless otherwise cancelled or extended by mutual agreement of the related parties and the Issuer.

On January 22, 2020, the Shared Services Agreement was amended to include the one-time share of Monte Oro and Calaca in the professional fees incurred by the Issuer in relation to implementation of the Share Swap amounting to ₱16,506,190.

Services provided under the Shared Services Agreement include assistance with renewal of business permits, preparation of tax returns and financial statements, and other regulatory requirements. The Intermediate Holding Companies have no commercial operations in the sense that their business and investment are limited to holding shares in the relevant companies within the Group.

#### 4. Advances from Related Parties

On October 20, 2020, the Issuer received advances from its two Principal Shareholders amounting to a total of ₱250,051,483 to be used by the Issuer in relation to the implementation of the Share Swap. In particular, the advances were used to fund the payment of taxes, regulatory filing fees, advisory fees in connection with the implementation of the Share Swap.

These advances are payable on demand and non-interest bearing. On September 23, 2021, the Issuer paid such advances from its Principal Shareholders.

#### Transfer Pricing Regulations

Under Section 50 of the National Internal Revenue Code, in the case of two or more businesses owned or controlled directly or indirectly by the same interests, the BIR Commissioner is authorized to distribute, apportion, or allocate gross income or deductions between or among such businesses. On January 23, 2013, the BIR issued Revenue Regulations No. 2-2013 on Transfer Pricing Regulations (the “**Transfer Pricing Regulations**”) which adheres to the arm’s length methodologies set out under the Organization for Economic Cooperation and Development Transfer Pricing Guidelines. The Transfer Pricing Regulations are applicable to cross-border and domestic transactions between related parties and associated enterprises. The BIR Transfer Pricing Regulations defines related parties as two or more enterprises where one enterprise participates directly or indirectly in the management, control, or capital of the other; or if the same persons participate directly or indirectly in the management, control, or capital of the enterprises. The arm’s length principle requires the transaction with a related party to be made under comparable conditions and circumstances as a transaction with an independent party such that if two related parties derive profits at levels above or below comparable market levels solely by reason of the special relationship between them, the profits will be deemed as non-arm’s length. In such a case, the BIR can make the necessary adjustments to the taxable profits of the related parties so as to reflect the true value that would otherwise be derived on an arm’s length basis.

The BIR also issued Revenue Audit Memorandum Order No. 1-2019 (the “**Transfer Pricing Audit Guidelines**”) which provide the audit procedures to be applied to specific and common transfer pricing issues in the Philippines such as intra-group services, intangible asset transactions, cost contribution arrangements and interest payment transactions. Under the Transfer Pricing Audit Guidelines, it is generally not sufficient that the fees or costs charged on the related party transactions are at arm’s length. The BIR will also consider other factors such as the nature and purpose of the transaction and the economic benefit derived by the recipient, among others, to determine whether it should disallow or make downward adjustments on the charges to the income recipient.

The Issuer is subject to transfer pricing regulations in relation to its related party transactions, and the BIR may determine that certain related party transactions are not conducted on an arm’s length basis, which could result in tax adjustments that could have an adverse effect on the Issuer’s operational and financial performance.

Pursuant to Revenue Regulations No. 19-2020 dated July 8, 2020, as amended by Revenue Regulations No. 34-2020 dated December 18, 2020 (*Guidelines and Procedures for the Submission of BIR Form No. 1709, Transfer Pricing Documentation and other Supporting Documents*), the Issuer is required to file, together with its annual income tax return, the BIR Form No. 1709, or the Information Return on Transactions with Related Party (“**RPT Form**”), detailing the related party transactions per related party.

Revenue Memorandum Circular No. 076-20 dated July 29, 2020 (*Clarifying Certain Issues on the Filing of the Related Party Transaction Form*) clarifies that all taxpayers with related party transactions are required to attach a transfer pricing documentation (“**TPD**”), local or otherwise, regardless of the amount and volume of related party transactions. The TPD should include the date of creation or preparation so as to ensure its applicability to the related party transactions conducted in the taxable year concerned. Further, the TPDs attached should be the one relied upon by the taxpayer prior to or at the time of the related party transaction, or prepared after the related party transactions, but not later than the filing due date of the tax return.

The Issuer will be complying with these BIR issuances on the disclosure of related party transactions.

## DESCRIPTION OF THE SHARES

*The following is general information relating to the capital stock of the Issuer but does not purport to be complete or to give full effect to the provisions of law and is in all respects qualified by reference to the applicable provisions of SGP's Articles of Incorporation and By-Laws, as may be amended from time to time.*

### SHARE CAPITAL INFORMATION

Pursuant to the Issuer's amended Articles of Incorporation to implement the Offer, as approved by the Board of Directors on June 30, 2021, by the Issuer's stockholders on August 10, 2021 and by the Philippine SEC on August 25, 2021, SGP has an authorized capital stock of ₱5,300,000,000.00 divided into (i) 5,300,000,000 Common Shares with a par value of ₱1.00 per share. As of the date of this Prospectus, SGP has 4,212,366,000 issued and outstanding Common Shares.

A Philippine corporation may issue common or preferred shares, or such other classes of shares with such rights, privileges or restrictions as may be provided for in its articles of incorporation and by-laws. A Philippine corporation may also increase or decrease its authorized capital stock, provided that the increase or decrease is approved by a majority of the board of directors and by shareholders representing at least two-thirds of the outstanding capital stock of the corporation voting at a shareholders' meeting duly called for the purpose and is duly approved by the Philippine SEC.

The Issuer may acquire its own shares for a legitimate corporate purpose as long as it has unrestricted retained earnings or surplus profits sufficient to pay for the shares to be acquired, such as in the following instances: (i) elimination of fractional shares arising out of stock dividends, (ii) the purchase of shares of dissenting shareholders exercising their appraisal right and (iii) the collection or compromise of an indebtedness arising out of an unpaid subscription in a delinquency sale or to purchase delinquent shares during such sale. Upon repurchase of its own shares, the shares become treasury shares, which may be resold at a reasonable price fixed by the board of directors.

The Board of SGP is authorized to issue shares from the treasury from time to time.

### RIGHTS RELATING TO SHARES

#### Voting Rights

The Issuer's Common Shares have full voting rights. However, the Revised Corporation Code of the Philippines provides that for the following shares and shareholders, voting rights cannot be exercised: (i) delinquent shares as declared by the board of directors, (ii) treasury shares, or (iii) if the shareholder elected to exercise his right of appraisal referred to below.

Each common share is entitled to one vote. At each meeting of the shareholders, every stockholder entitled to vote on a particular question or matter involved shall be entitled to one vote for each share of stock standing in his name in our books as of record for such meeting.

In accordance with Section 23 of the Revised Corporation Code of the Philippines, at each election of directors, every stockholder entitled to vote at such election shall have the right to vote, in person or by proxy, the number of shares owned by them as of the relevant record date for as many persons as there are directors to be elected and for whose election they have a right to vote, or to cumulate their votes by giving one candidate the number of votes equal to the number of directors to be elected multiplied by the number their shares shall equal, or by distributing such votes on the same principle among any number of candidates as the stockholder shall see fit.

#### Dividends and Dividend Rights

Shareholders have rights to dividends when declared by the Board of Directors from the unrestricted retained earnings of a company, subject to compliance with legal requirements, at such times and in such percentages as may be determined by its Board of Directors. The unrestricted retained earnings represent the undistributed earnings of the Issuer which have not been allocated for any managerial, contractual or legal purposes and which are free for distribution to the shareholders as dividends. Dividends are payable to all shareholders whose names are recorded in the stock and transfer book as of the record date fixed by the Board of Directors on the basis of their outstanding shares of the Issuer, each share being entitled to the same unit of dividend as any other share. The PSE has an established mechanism for distribution of dividends to beneficial owners of shares which are traded through the PSE which are lodged with the PCD Nominee as required for scripless trading.

Under the Issuer's By-laws, dividends shall be declared only from surplus profit and shall be payable at times and in amounts as the Board determines. The dividends shall be payable in cash or in shares of the unissued stock of the corporation, or both, as determined by the Board or the stockholders, as the case may be. Stock dividends shall be declared in accordance with law. The Common Shares shall have full dividend rights.

### **Rights of Shareholders to Assets of the Issuer**

Each holder of a Common Share is entitled to a pro rata share in the Issuer's assets available for distribution to the shareholders in the event of dissolution, liquidation, and winding up.

### **Pre-Emptive Rights**

Pre-emptive rights are available to existing stockholders of a Philippine corporation unless expressly denied in a corporation's articles of incorporation or waived by the shareholder in writing. The pre-emptive rights entitle shareholders the right to subscribe to all issues or other dispositions of shares of any class by the corporation in proportion to their respective shareholdings, regardless of whether the shares proposed to be issued or otherwise disposed of are identical to the shares held.

Pursuant to the Article Seventh of the Issuer's Articles of Incorporation, stockholders have no pre-emptive rights or other right to purchase, subscribe for, or take any part of any stock or of any other securities convertible into or carrying options or warrants to purchase stock of the corporation, whether out of the unissued authorized capital stock or any future increases. Thus, stocks or securities may be issued, option for sale, and sole or disposed of by the Issuer to persons designated in the resolution of its Board of Directors without first offering it to existing stockholders.

### **Derivative Rights**

Philippine law recognizes the right of a shareholder to institute proceedings on behalf of the corporation in a derivative action in circumstances where the corporation itself is unable or unwilling to institute the necessary proceedings to redress wrongs committed against the corporation or to vindicate corporate rights as, for example, where the directors of the corporation themselves are the malefactors.

### **Appraisal Rights**

Under the Revised Corporation Code of the Philippines, dissenting stockholders have the right of appraisal to demand payment of the fair value of their shares in the following instances where they voted against any of the following proposed corporation actions:

- (a) an amendment of the articles of incorporation which has the effect of adversely affecting the rights attached to his shares or of authorizing preferences in any respect superior to those of outstanding shares of any class;
- (b) the extension of the term of corporate existence;
- (c) the sale, lease, exchange, transfer, mortgage, pledge or other disposal of all or substantially all the assets of the corporation;
- (d) a merger or consolidation; or
- (e) investment by the corporation of funds in any other corporation or business or for any purpose other than the primary purpose for which it was organized.

In any of the above instances, the dissenting stockholders may require the corporation to purchase their shares at a fair value to be determined by three disinterested persons (one named by the shareholder, one by the corporation, and the third by the two previously chosen) in the absence of any agreement on the value. In the event of a dispute, the Regional Trial Court will determine any question about whether a dissenting shareholder is entitled to this right of appraisal. From the time the shareholder makes a demand for payment until the corporation purchases such shares, all rights of the shareholders accruing on the shares, including voting and dividend rights, shall be suspended, except the right of the shareholder to receive the fair value of such shares. No payment shall be made

to any dissenting shareholder unless the corporation has Unrestricted Retained Earnings sufficient to support the purchase of the shares of the dissenting shareholders.

To exercise the appraisal right, a dissenting shareholder who votes against a proposed corporate action must make a written demand to the corporation for the payment of the fair value of shares held within 30 days from the date on which the vote was taken. Failure to make the demand within this period is deemed a waiver of the appraisal right.

### **Right to Inspect Corporate Books and Records**

A shareholder has the right to inspect the records of the corporation, including all business transactions and the minutes of any meeting of the board of directors and shareholders, at reasonable hours on business days and may demand a copy of excerpts from such records or minutes at his or her expense. However, the corporation may refuse such inspection if the shareholder demanding to examine or copy the corporation's records has improperly used any information secured through any prior examination, or was not acting in good faith or for a legitimate purpose in making the demand.

### **Right to Financial Statements**

A shareholder has a right to be furnished with the most recent financial statement of a Philippine corporation, which shall include a balance sheet as of the end of the last taxable year and a profit or loss statement for said taxable year, showing in reasonable detail its assets and liabilities and the results of its operations. At the meeting of shareholders, the Board of Directors is required to present to the shareholders a financial report of the operations of the corporation for the preceding year, which shall include financial statements duly signed and certificate by an independent certified public accountant.

### **Right to Stock Certificates**

Each shareholder whose shares of stock have been paid in full shall be entitled to a stock certificate for such shares of stock.

### **Right to be Elected as Director**

Any shareholder having at least one share registered in his or her name may be elected director, provided that he or she has such qualifications and none of the disqualifications provided for in the Revised Corporation Code, Securities Regulation Code, the Issuer's Manual on Corporate Governance, and other relevant laws and regulations.

## **BOARD OF DIRECTORS**

The Board of Directors of a corporation are vested with its corporate powers, which allows it to control the conduct of business and the property of a corporation, unless otherwise provided by law or in its articles of incorporation. Pursuant to the Issuer's Articles of Incorporation, as amended, the general management of the Issuer shall be vested in a board of seven (7) directors who shall be stockholders and who shall serve until the election and qualification of their successors.

The Board of Directors are elected during each regular meeting of the shareholders, wherein shareholders representing at least a majority of the issued and outstanding capital stock of the Issuer are present, either in person or by proxy. Any vacancy in the Board of Directors shall be filled by a majority vote of the Board of Directors at a regular meeting or at a special meeting called for that purpose, and the director or directors so chosen shall serve for the unexpired term. Philippine law requires that representation of foreign ownership on the Board is limited only to the proportion of the foreign shareholding.

The exercise of corporate powers belongs to the Board as a whole. Individual directors have no power as such, unless otherwise authorized by the Board. A majority of the directors shall be necessary at all meetings to constitute a quorum for the transaction of any business, and every decision of a majority of the quorum duly assembled as a Board shall be valid as a corporate act. Four (4) directors, which is a majority of the Board, constitute a quorum for the transaction of corporate business. Except for certain corporate actions such as the election of officers, which shall require the vote of a majority of all the members of the Board, every decision of a majority of the quorum duly assembled as a board is valid as a corporate act.

As a corporation publicly listed in the PSE, the Issuer shall conform with the requirement to have three (3) independent directors within the meaning set forth under Section 38 of the SRC. An independent director shall hold no interests or relationships with the Issuer that may hinder his or her independence from the Issuer or Management which would interfere with the exercise of independent judgment in carrying out the responsibilities of a director and which he or she shall certify in a letter of confirmation to the Corporate Secretary.

Pursuant to its Articles of Incorporation, the Board of Directors of the Issuer shall have the management of the business of the Issuer and such powers and authorities as are by the By-laws or by statutes of the Philippines expressly conferred upon it. Without prejudice to the general powers conferred in the By-laws, the Board of Directors shall have the following express powers, to quote the Issuer's Articles of Incorporation:

- (a) To locate, purchase, lease and otherwise acquire mineral, oil, petroleum claims and/or concessions anywhere in the Philippines, and to hold, work, and operate by itself or enter into any contract with any party or parties or firms for the operation of such claims or concessions, and extract and market the contents therein of whatever nature, to acquire, own and use water and/or water rights, timber and/or timber rights, refinery and mill sites, and refineries and mills incident to the treatment of gold and other mineral bearing ores or petroleum, and earth.
- (b) To construct and maintain conduits, pipelines, and lines of tubing for the use of said corporation, and to lay rig, buy, lease, sell, and otherwise contract for, and operate such conduits, pipelines and lines of tubings, as well as storage tanks, railways, tramways, roadways and tracks, for the purpose of transporting and storing oil and gas, and of operating a general pipelines and storage business.
- (c) To buy, sell, charter, operate and maintain tank and freight steamers and other vessels of all kinds for the transportation of merchandise of the corporation and as may be necessary or incidental to effect the purpose of the corporation.
- (d) To construct and maintain radio-audio system necessary or convenient in the operation of the business of the company.
- (e) To construct, maintain, and operate gas wells, oil wells, and refineries, and to buy, sell, and otherwise deal in gas, oils, and slats and other derivatives or products.
- (f) To acquire, construct and maintain buildings, dwellings, stores, warehouses, machineries, plants, boats, roads and bridges, mills, works and workshops, laboratories, power plants, derricks, drills and sawmills, and other effects whatsoever which the corporation may think proper to be acquired; constructed and/or operated for the pursuance of any of its purposes, to obtain and prepare for market such other valuable minerals, chemicals, or materials as may be discovered in the course of developing the lands of the company.
- (g) To carry on in connection with any or all of the aforementioned purposes the business of importing, buying, selling and otherwise dealing with equipment, machineries, supplies, and accessories and to transact all business properly connected with or incidental to any or all of the said objects and purposes.
- (h) To purchase, lease, or otherwise acquire such real and personal property in any part of the Philippines or elsewhere, as the purposes for which the corporation is formed may permit, and as may be reasonably required for the transaction of its lawful business; to hold, maintain, conduct, use and operate and to lease, sell, mortgage, or otherwise dispose of property of any character owned by the corporation or in any manner held by it, upon any terms.
- (i) To purchase, or otherwise acquire in whole or in any part of the goodwill, property and assets, and to undertake all or any part of the business, property and liabilities of any person, partnership, corporation or other associations, carrying on any business similar to that for which this corporation is organized to do, and to pay for the same in cash, or in stock, bonds, and other securities or properties of the corporation.
- (j) To buy or otherwise acquire any inventions, improvements and processes concerning the extraction, treating, conversion, manufacture or use of any single one or compound of the

minerals herein named and otherwise included in their respective groups or relating thereto, or pertaining to the refining of petroleum and other volatile minerals and the processing of their products, secured under letters patent or licenses in respect to the same, and to use, exercise, develop and sell such inventions, improvements, and processes and to grant licenses of the things respecting the same.

- (k) To purchase, hold, convey, sell, lease, mortgage, encumber, administer, and otherwise deal with lands, buildings, tenements, improvements and other kinds of real estate in the Philippines or elsewhere.
- (l) To borrow or raise money in such manner as the company will think fit by the issuance of bonds, promissory notes and other evidences of indebtedness, and to secure the repayment thereof by mortgage, pledge, deed of trust, and charge or lien upon the whole or any part of the properties of the corporation.
- (m) To draw, make, issue, accept, and indorse drafts, bills of exchange, promissory notes and other evidences of indebtedness in so far as the exigencies of the business for which the corporation is organized shall require.
- (n) To invest, deal with the moneys and properties of the corporation in such a manner as may from time to time be considered wise or expedient.
- (o) To do such other things as are incidental or may be conducive to the attainment of the above objects or any of them, or which may be conveniently carried on or done in connection therewith or calculated directly or indirectly to enhance the value of, or render profitable, any business or property of the corporation subject to any laws of the Philippines now or hereafter existing and in force.
- (p) Without in any particular limiting the powers herein provided, the corporation shall have power to make and perform contracts of any kind and description with any person, firm or corporation, whether public or private, without any limit as to amount, and particularly, but not by way limitation, to make and perform contracts creating rights, easements and other privileges respecting any of the property, real or personal, or any kind owned by the corporation; to have one or more branch offices out of the Philippines, and to conduct its business and exercise its powers in any part of the Philippines, or in any other country; and in carrying on its business and for the purpose of attaining or furthering its purposes or powers to do any and all other powers which a juridical person could do and exercise and which now or hereafter may be authorized by law.

## **SHAREHOLDERS' MEETINGS**

### **Annual or Regular Shareholders' Meeting**

Under the Revised Corporation Code of the Philippines, Philippine corporations are required to hold an annual meeting of shareholders for corporate purposes including the election of directors. The By-laws of the Issuer provide for annual meetings on the third Thursday of October at 5:00 o'clock in the afternoon of each year to be held at its principal office. For the year 2020, the annual stockholders' meeting was held on November 12, 2020 virtually due to the COVID-19 pandemic. The Issuer has yet to hold its annual meeting for the year 2021.

### **Special Shareholders' Meeting**

Under the Issuer's By-laws, special meetings of the shareholders may be called at the principal office of the Issuer at any time by resolution of the Board or by order of the President, or upon the written call of the shareholders owning at least one third (1/3) of the entire subscribed stock of the Issuer. Pursuant to Section 49 of the Revised Corporation Code, stockholders may propose the holding of a special meeting and items to be included in the agenda.

Pursuant to SEC Memorandum Circular No. 14 (series of 2020), shareholders who, alone or together with other shareholders, hold at least 5.0% of the outstanding capital stock of a publicly-listed company have the right to include items on the agenda prior to the regular/special stockholders' meeting.

Moreover, shareholders of a publicly-listed company holding at least 10.0% or more of the outstanding capital stock may call for a special stockholders' meeting, subject to the guidelines set under Section 49 of the Revised Philippine Corporation Code, SEC Memorandum Circular No. 7 (series of 2021), and other relevant regulations. The shareholders calling for the special stockholders' meeting must have held the shares for a period of at least one year prior to the receipt by the Corporate Secretary of a written call for a special stockholders' meeting.

### **Notice of Shareholders' Meeting**

The Issuer is required to have a written or printed notice for every regular or special meeting of the shareholders to be mailed to the registered post office address, or in any other manner as the Philippine SEC shall allow under its guidelines and within such period as may be required under existing laws, whether within or outside the Philippines, of each stockholders not less than twenty-eight (28) business days prior to the date set for the meeting. The notice must contain the objects of the meeting.

In addition, in accordance with Section 49 of the Revised Corporation Code and SEC Memorandum Circular No. 6, series of 2020, for meetings to be held via remote communication, written notice must be sent at least 21 days prior to the scheduled regular meeting. The Issuer must also comply with SEC Circular No. 3, Series of 2020 which requires a corporation to send written notice of regular meetings of shareholders at least 21 calendar days prior to the date of the meeting. The notice shall state the place, date and hour of the meeting, and the purpose or purposes for which the meeting is called. In case of special meetings, only matters stated in the notice can be the subject of motions or deliberations at such meeting. Notice of any meeting may be waived, expressly or impliedly, by any shareholder, in person or by proxy, before or after the meeting.

When the meeting of the shareholders is adjourned to another time or place, notice of the adjourned meeting need not be provided so long as the time and place to which the meeting is adjourned are announced at the meeting at which the adjournment is decided. At the reconvened meeting, any business may be transacted that might have been transacted on the original date of the meeting.

For a special stockholders' meeting called pursuant to SEC Circular No. 7, the Board shall issue the notice to convene the stockholders' meeting at least seven days prior to the proposed date of the special meeting after a determination that the objectives and conditions in the written call are consistent with the requirements of SEC Circular No. 7.

### **Quorum**

A majority of the entire subscribed stock of the corporation represented in person or by proxy or through remote communication or in absentia as the Philippine SEC shall allow under its guidelines, shall constitute a quorum at any meeting of the stockholders. A majority of the quorum shall decide any question that may come before the meeting, save and except in those several cases in which the laws of the Philippines require the affirmative vote of a greater proportion.

Upon approval of and upon notice by the Board of Directors, meetings may be attended by the stockholders either in person or through video or teleconference or such other means as may be subsequently permitted by applicable law or regulation.

### **Voting**

At all meetings of shareholders, a holder of Common Shares may vote in person or by proxy, for each share held by such shareholder. Voting at all meetings of the shareholders shall be by shares of stock and not per capita.

### **Fixing Record Dates**

The Board of Directors has the authority to fix in advance the record date for shareholders entitled: (a) to notice of, to vote at, or to have their shares voted at, any shareholders' meeting; (b) to receive payment of dividends or other distributions or allotment of any rights; or (c) for any lawful action or for making any other proper determination of shareholders' rights. In lieu of fixing the record date, the Board of Directors may, by resolution, direct the stock transfer books of the Issuer be closed.

Pursuant to Philippine SEC rules, cash dividends declared by corporations whose shares are listed on the PSE shall have a record date, which shall not be less than 10 and not more than 30 days from the date of declaration of cash dividends.

In the event that a stock dividend is declared in connection with an increase in authorized capital stock, the corresponding record date shall be fixed by the Philippine SEC and shall be indicated in the Philippine SEC order, which shall not be less than 10 days nor more than 30 days after all clearances and approvals by the Philippine SEC shall have been secured. Regardless of the kind of dividends, the record date set shall not be less than 10 trading days from receipt by the PSE of the notice of declaration of the dividend.

## **SHARES OF STOCK**

Each shareholder of the Issuer whose stock has been paid in full shall be entitled to a certificate or certificates showing the amount of stock of the Issuer in his or her name.

Under the PSE Rules, only fully-paid shares may be listed with the PSE.

## **ISSUE OF SHARES**

Subject to otherwise applicable limitations, the Issuer may issue additional shares to any individual for consideration deemed fair by our Board, provided said consideration shall not be less than the par value of the issued shares. No share certificates shall be issued to a subscriber until the full amount of the subscription together with interest and expenses (in case of delinquent Shares) has been paid and proof of payment of the applicable taxes shall have been submitted to our Corporate Secretary. Under the PSE Rules, only fully-paid shares may be listed on the PSE.

## **TRANSFER OF COMMON SHARES**

All transfer of shares on the PSE shall be done by means of a book-entry system. Pursuant to this system of trading and settlement, a registered shareholder transfers legal title over the shares to such nominee, but retains beneficial ownership over the shares. A shareholder transfers legal title by surrendering the stock certificate representing his shares to participants of the PDTC System (i.e., brokers and custodian banks) that, in turn, lodge the same with the PCD Nominee. A shareholder may request his shares to be uplifted from the PDTC, in which case a certificate of stock is issued to the shareholder and the shares are registered in the name of the shareholder. See *“The Philippine Stock Market.”*

Under Philippine law, transfer of the Common Shares is not required to be effected on the PSE, but any off exchange transfers will subject the transferor to a capital gains tax that may be significantly greater than the stock transfer tax applicable to transfers effected on an exchange. See *“Philippine Taxation.”* All transfers of Shares on the PSE must be effected through a licensed stockbroker in the Philippines.

## **SHARE REGISTER**

The Issuer’s share register is maintained at the principal office of the share transfer agent, Stock Transfer Service, Inc.

## **SHARE CERTIFICATES**

Certificates representing the Common Shares will be issued in such denominations as shareholders may request, except that certificates will not be issued for fractional shares. For Shareholders who wish to split their certificates, they may do so through application to our stock transfer agent. Shares may also be lodged and maintained under the book-entry system of the PDTC. See *“The Philippine Stock Market.”*

## **MANDATORY TENDER OFFER**

Pursuant to the SRC and its implementing rules and regulations, it is mandatory for any person or group of persons acting in concert to make a tender offer to all the shareholders of the target corporation before the intended acquisition of:

- 35% of the outstanding voting shares or such outstanding voting shares that are sufficient to gain control of the board in a public company in one or more transactions within a period of 12 months;

- 35% of the outstanding voting shares or such outstanding voting shares that are sufficient to gain control of the board in a public company directly from one or more stockholders; or
- equity which would result in ownership of over 50% of the outstanding equity securities of a public company.

Pertaining to the first instance, when the securities tendered pursuant to such an offer exceed the number of shares that the acquiring person or group of persons is willing to acquire, the securities shall be purchased from each tendering shareholder on a pro rata basis according to the number of securities tendered by each security holder. In the event that the tender offer is oversubscribed, the aggregate amount of securities to be acquired at the close of such tender offer shall be proportionately distributed to both selling shareholders with whom the acquirer may have been in private negotiations with and the minority shareholders.

Pertaining to the second instance, the tender offer shall be made for all the outstanding voting shares. The sale of shares pursuant to the private transaction with the stockholders shall not be completed prior to the closing and completion of the tender offer.

Pertaining to the third instance, the acquirer shall be required to make a tender offer for all the outstanding equity securities to all remaining stockholders of the company at a price supported by a fairness opinion provided by an independent financial advisor or equivalent third party. The acquirer shall be required to accept all securities tendered.

Further, no mandatory tender is required on:

- purchases of shares from unissued capital shares unless such purchases will result in a 50% or more ownership of shares by the purchaser or such percentage that is sufficient to gain control of the Board;
- purchases from an increase in the authorized capital shares of the target company;
- purchases in connection with a foreclosure proceeding involving a pledge or security where the acquisition is made by a debtor or creditor;
- purchases in connection with a privatization undertaken by the government of the Philippines;
- purchases in connection with corporate rehabilitation under court supervision;
- purchases through an open market at the prevailing market price; or
- purchases resulting from a merger or consolidation.

## **FUNDAMENTAL MATTERS**

The Revised Corporation Code provides that the following acts of the corporation require the approval of shareholders representing at least two-thirds (2/3) of the issued and outstanding capital stock of the corporation: (i) amendment of the articles of incorporation; (ii) removal of directors; (iii) sale, lease, exchange, mortgage, pledge or other disposition of all or substantially all of the assets of the corporation; (iv) investment of corporate funds in any other corporation or business or for any purpose other than the primary purpose for which the corporation was organized; (v) delegation to the board of directors of the power to amend or repeal by-laws or adopt new by-laws; (vi) merger or consolidation; (vii) an increase or decrease in capital stock; (viii) dissolution; (ix) extension or shortening of the corporate term; (x) creation or increase of bonded indebtedness; (xi) declaration of stock dividends; (xii) management contracts with related parties; and (xiii) ratification of contracts between the corporation and a director or officer.

Further, the approval of shareholders holding a majority of the outstanding capital shares of a Philippine corporation, including non-voting shares, is required for the adoption or amendment of the by-laws of such corporation.

## **ACCOUNTING AND AUDITING REQUIREMENTS**

Philippine stock corporations are required to file copies of their annual financial statements with the Philippine SEC. In addition, public corporations are required to file quarterly financial statements (for the first three quarters) with the Philippine SEC. Those corporations whose shares are listed on the PSE are additionally required to file said quarterly and annual financial statements with the PSE. Shareholders are entitled to request copies of the most recent financial statements of the corporation which include a statement of financial position as of the end of the most recent tax year and a profit and loss statement for that year. Shareholders are also entitled to inspect and examine the books and records that the corporation is required by law to maintain.

The Board is required to present to shareholders at every annual meeting a financial report of our operations for the preceding year. This report is required to include audited financial statements.

#### **ADDITIONAL INFORMATION**

The Issuer files periodic reports and other information to the Philippine SEC and the PSE. These reports and other information may be inspected and copied at the public reference facilities maintained by the Philippine SEC and PSE or obtained at the PSE website at [www.pse.com.ph](http://www.pse.com.ph). Information on this website or any other websites are not incorporated by reference into this Prospectus and does not constitute a part of this Prospectus.

## MARKET PRICE OF ISSUER'S STOCK AND RELATED STOCKHOLDER MATTERS

The Issuer's shares were first listed on the PSE on May 10, 1972 and continue to be listed on the PSE under the symbol "SGP." As of the date of this Prospectus, the public float of SGP is below the MPO requirement and trading in SGP has been suspended. SGP intends to restore its public float and meet the MPO requirement by undertaking this Offer. See "*Description of the Issuer—History and Corporate Structure of SGP.*"

Below are the high and low sale prices for calendar years 2017 to 2020, as well as the first two quarters of 2021:

<b>Period</b>	<b>High</b>	<b>Low</b>
<b>Calendar Year 2021</b>		
Second Quarter	395.80	395.80
First Quarter	345.00	333.00
<b>Calendar Year 2020</b>		
Fourth Quarter	242.00	237.00
Third Quarter	155.00	155.00
Second Quarter	150.00	145.00
First Quarter	150.00	131.00
<b>Calendar Year 2019</b>		
Fourth Quarter	214.00	190.00
Third Quarter	444.00	444.00
Second Quarter	480.00	459.80
First Quarter	446.00	420.00
<b>Calendar Year 2018</b>		
Fourth Quarter	541.00	536.00
Third Quarter	348.00	348.00
Second Quarter	500.00	490.00
First Quarter	720.00	675.00
<b>Calendar Year 2017</b>		
Fourth Quarter	180.00	180.00
Third Quarter	206.20	206.00
Second Quarter	209.80	174.00
First Quarter	200.00	200.00

On May 28, 2021, the day trading in SGP was suspended by the PSE for falling below the MPO requirement, the closing price of the Issuer's common shares on the PSE was ₱395.80 per Common Share.

## THE PHILIPPINE STOCK MARKET

*The information presented in this section has been extracted from publicly available documents which have not been prepared or independently verified by the Group, the Joint Global Coordinators and Joint Bookrunners, the Joint Domestic Lead Underwriters and Joint Bookrunners, or any of the Issuer or the Group's affiliates or advisors in connection with the offer and sale of the Offer Shares.*

### BRIEF HISTORY

The Philippines initially had two stock exchanges, the Manila Stock Exchange, which was organized in 1927, and the Makati Stock Exchange, which began operations in 1963. Each exchange was self-regulatory, governed by its respective Board of Governors elected annually by its members.

Several steps initiated by the Government have resulted in the unification of the two bourses into the PSE. The PSE was incorporated on July 24, 1992 as a non-stock corporation by officers of both the Makati and the Manila Stock Exchanges. In March 1994, the licenses of the two exchanges were revoked. The PSE previously maintained two trading floors, one in Makati City and the other in Pasig City, which were linked by an automated trading system that integrated all bid and ask quotations from the bourses. In February 2018, the PSE transferred to its new office located at the PSE Tower, Bonifacio Global City, Taguig City. The PSE Tower houses the PSE corporate offices and a single, unified trading floor.

In June 1998, the Philippine SEC granted the PSE “Self-Regulatory Organization” status, allowing it to impose rules as well as implement penalties on erring trading participants and listed companies. On August 8, 2001, the PSE completed its demutualization, converting from a non-stock member-governed institution into a stock corporation in compliance with the requirements of the SRC. Each of the 184 member-brokers was granted 50,000 shares of the new PSE at a par value of ₱1.00 per share. In addition, a trading right evidenced by a “Trading Participant Certificate” was immediately conferred on each member-broker allowing the use of the PSE’s trading facilities. As a result of the demutualization, the composition of the PSE Board of Governors was changed, requiring the inclusion of seven brokers and eight non-brokers, one of whom is the President. On December 15, 2003, the PSE listed its shares by way of introduction at its own bourse as part of a series of reforms aimed at strengthening the Philippine securities industry. As of March 6, 2020, the PSE has an authorized capital stock of ₱120 million, of which ₱85.2 million are issued and ₱81.6 million are outstanding.

Classified into financial, industrial, holding firms, property, services, and mining and oil sectors, companies are listed either on the PSE’s Main Board or the Small, Medium and Emerging Board. On April 3, 2013, the PSE issued Rules on Exchange Traded Funds (“ETF”) which provides for the listing of ETFs on an ETF Board separate from the PSE’s existing boards.

The PSE has a benchmark index, referred to as the PSEi, which reflects the price movements of the 30 largest and most active stocks at the PSE. The PSEi is a free float market capitalization-weighted index.

The PSE launched its Corporate Governance Guidebook in November 2010 as another initiative of the PSE to promote good governance among listed companies. It is composed of ten guidelines embodying principles of good business practice and based on internationally recognized corporate governance codes and best practices.

With the increasing calls for good corporate governance and the need to consistently provide full, fair, accurate and timely information, the PSE adopted a new online disclosure system to support the provision of material information coming from listed companies and enhance access to such reports by the investing public. In December 2013, the PSE Electronic Disclosure Generation Technology (EDGe), a new disclosure system co-developed with the Korea Exchange, went live. The EDGe system provided a dedicated portal for listed company disclosures and also offered a free-to download mobile application for easy access by investors.

In June 2015, the PSE shifted to a new trading system, the PSEtrade XTS, which utilizes NASDAQ’s X-stream Technology. The PSEtrade XTS, which replaced the NSC trading platform provided by NYSE Euronext Technologies SAS, is equipped to handle large trading volumes. It is also capable of supporting the future requirements of the PSE should more products and services be introduced.

In November 2016, PSE received regulatory approvals to introduce new products in the stock market – the Dollar Denominated Securities and the Listing of PPP Companies.

In June 2018, the PSE received approval from the Philippine SEC to introduce short selling in the equities market.

On March 22, 2018, the PSE completed a stock rights offering of 11,500,000 Common Shares which were offered at the price of ₱252.00 per share, or a total of ₱2,898,000,000. The proceeds of the stock rights offering will be used to fund the acquisition of PDS and capital expenditure requirements of the PSE. As of the date of this Prospectus, the PSE has an authorized capital stock of ₱120 million, of which 85,025,692 shares are issued. Out of this total, 84,925,686 shares are outstanding, and 100,006 are treasury shares.

The table below sets out movements in the composite index from 2005 to 2020, and shows the number of listed companies, market capitalization, and value of shares traded for the same period:

<b>Year</b>	<b>Composite Index at Closing</b>	<b>Number of Listed Companies</b>	<b>Aggregate Market Capitalization (₱ Bn)</b>	<b>Combined Value of Turnover (₱ Bn)</b>
<b>2005</b>	2,096.0	237	5,948.4	383.5
<b>2006</b>	2,982.5	240	7,172.8	572.6
<b>2007</b>	3,621.6	244	7,978.5	1,338.3
<b>2008</b>	1,872.9	246	4,069.2	763.9
<b>2009</b>	3,052.7	248	6,029.1	994.2
<b>2010</b>	4,201.1	253	8,866.1	1,207.4
<b>2011</b>	4,372.0	253	8,697.0	1,422.6
<b>2012</b>	5,812.7	254	10,930.1	1,771.7
<b>2013</b>	5,889.8	257	11,931.3	2,546.2
<b>2014</b>	7,230.6	263	14,251.7	2,130.1
<b>2015</b>	6,952.1	265	13,465.2	2,151.4
<b>2016</b>	7,629.7	268	14,438.8	1,929.5
<b>2017</b>	8,558.4	267	17,538.1	1,958.4
<b>2018</b>	7,466.0	267	16,146.7	1,736.8
<b>2019</b>	7,815.3	271	16,710	1,770.0
<b>2020</b>	7,139.71	274	15,888.92	1,770.90

Source: PSE and PSE Annual Reports.

## TRADING

The PSE is a double auction market. Buyers and sellers are each represented by stock brokers. To trade, bid or ask prices are posted on the PSE's electronic trading system. A buy (or sell) order that matches the lowest asked (or highest bid) price is automatically executed. Buy and sell orders received by one broker at the same price are crossed at the PSE at the indicated price. Transactions are generally invoiced through a confirmation slip sent to customers on the trade date (or the following trading day). Payment of purchases of listed securities must be made by the buyer on or before the third trading day (the settlement date) after the trade.

Equities trading on the PSE starts at 9:30 a.m. and ends at 12:00 p.m. for the morning session, and resumes at 1:30 pm and ends at 3:30 pm for the afternoon session, with a ten-minute extension during which transactions may be conducted, provided that they are executed at the last traded price and are only for the purpose of completing unfinished orders. Trading days are Monday to Friday, except legal and special holidays and days when the BSP clearing house is closed. However, with the implementation of the community quarantine measures in Metro Manila, beginning March 16, 2020 and until further notice, the PSE has implemented shortened trading hours to end at 1:00 p.m.

Minimum trading lots range from 5 to 1,000,000 shares depending on the price range and nature of the security traded. The minimum trading lot for the Issuer's Shares is 10 shares. Odd-sized lots are traded by brokers on a board specifically designed for odd-lot trading.

To maintain stability in the stock market, daily price swings are monitored and regulated. Under current PSE regulations, whenever an order will result in a breach of the trading threshold of a security within a trading day, the trading of that security will be frozen. Orders cannot be posted, modified or cancelled for a security that is frozen. In cases where an order has been partially matched, only the portion of the order that will result in a breach of the trading threshold will be frozen. Where the order results in a breach of the trading threshold, the following procedures shall apply:

- In case the static threshold is breached, the PSE will accept the order, provided the price is within the allowable percentage price difference under the implementing guidelines of the revised trading rules (i.e., 50% of the previous day's reference or closing price, or the last adjusted closing price); otherwise, such order will be rejected. In cases where the order is accepted, the PSE will adjust the static threshold to 60%. All orders breaching the 60% static threshold will be rejected by the PSE.
- In case the dynamic threshold is breached, the PSE will accept the order if the price is within the allowable percentage price difference under the existing regulations (i.e., 20% for security cluster A and newly-listed securities, 15% for security cluster B and 10% for security cluster C); otherwise, such order will be rejected by the PSE.

## **NON-RESIDENT TRANSACTIONS**

When the purchase/sale of Philippine shares involves a non-resident, whether the transaction is effected in the domestic or foreign market, it will be the responsibility of the securities dealer/broker to register the transaction with the BSP. The local securities dealer/broker shall file with the BSP, within three business days from the transaction date, an application in the prescribed registration form. After compliance with other required undertakings, the BSP shall issue a Certificate of Registration. Under BSP rules, all registered foreign investments in Philippine securities including profits and dividends, net of taxes and charges, may be repatriated.

## **SETTLEMENT**

The Securities Clearing Corporation of the Philippines (“**SCCP**”) is a wholly-owned subsidiary of the PSE, and was organized primarily as a clearance and settlement agency for SCCP-eligible trades executed through the facilities of the PSE. SCCP received its permanent license to operate on January 17, 2002. It is responsible for: (1) synchronizing the settlement of funds and the transfer of securities through delivery versus payment, as well as clearing and settlement of transactions of clearing members, who are also PSE Trading Participants; (2) guaranteeing the settlement of trades in the event of a PSE Trading Participant's default through the implementation of its “Fails Management System” and administration of the Clearing and Trade Guaranty Fund, and; (3) performance of risk management and monitoring to ensure final and irrevocable settlement.

SCCP settles PSE trades on a three-day rolling settlement environment, which means that settlement of trades takes place three days after transaction date (T+3). The deadline for settlement of trades is 12:00 noon of T+3. Securities sold should be in scripless form and lodged under the book entry system of the PDTC. Each PSE Trading Participant maintains a Cash Settlement Account with one of the eight existing Settlement Banks of SCCP which are Banco De Oro Unibank, Inc. (“**BDO Unibank**”), Rizal Commercial Banking Corporation (“**RCBC**”), Metropolitan Bank & Trust Company (“**Metrobank**”), Deutsche Bank (“**DB**”), Union Bank of the Philippines (“**Unionbank**”), The Hongkong and Shanghai Banking Corporation Limited (“**HSBC**”), Maybank Philippines, Inc. (“**Maybank**”) and Asia United Bank Corporation (“**AUB**”). Payment for securities bought should be in good, cleared funds and should be final and irrevocable. Settlement is presently on a broker level.

SCCP implemented its Central Clearing and Central Settlement (“**CCCS**”) system in May 29, 2006. CCCS employs multilateral netting, whereby the system automatically offsets “buy” and “sell” transactions on a per issue and a per flag basis to arrive at a net receipt or a net delivery security position for each clearing member. All cash debits and credits are also netted into a single net cash position for each clearing member. Novation of the original PSE trade contracts occurs, and SCCP stands between the original trading parties and becomes the Central Counterparty to each PSE-eligible trade cleared through it.

## **SCRIPLESS TRADING**

In 1995, the PDTC, was organized to establish a central depository in the Philippines and introduce scripless or book-entry trading in the Philippines. On December 16, 1996, the PDTC was granted a provisional license by the Philippine SEC to act as a central securities depository.

All listed securities at the PSE have been converted into book-entry settlement in the PDTC. The depository service of the PDTC provides the infrastructure for lodgment (deposit) and upliftment (withdrawal) of securities, pledge of securities, securities lending and borrowing and corporate actions including shareholders' meetings, dividend declarations and rights offerings. The PDTC also provides depository and settlement services for non-PSE trades of listed equity securities. For transactions on the PSE, the security element of the trade will be settled through the book-entry system, while the cash element will be settled through the current settlement banks, BDO Unibank, RCBC, Metrobank, DB, Unionbank, HSBC, Maybank and AUB.

In order to benefit from the book-entry system, securities must be immobilized into the PDTC system through a process called lodgment. Lodgment is the process by which shareholders transfer legal title (but not beneficial title) over their shares of stock in favor of PCD Nominee Corporation (“**PCD Nominee**”), a corporation wholly owned by the PDTC whose sole purpose is to act as nominee and legal title holder of all shares of stock lodged into the PDTC. “**Immobilization**” is the process by which the warrant or share certificates of lodging holders are cancelled by the transfer agent and the corresponding transfer of beneficial ownership of the immobilized shares to PCD Nominee will be recorded in the Issuer’s registry. This trust arrangement between the participants and PDTC through PCD Nominee is established by and explained in the PDTC Rules and Operating Procedures approved by the Philippine SEC. No consideration is paid for the transfer of legal title to PCD Nominee. Once lodged, transfers of beneficial title of the securities are accomplished via book-entry settlement.

Under the current PDTC system, only participants (e.g. brokers and custodians) will be recognized by the PDTC as the beneficial owners of the lodged equity securities. Thus, each beneficial owner of shares, through his participant, will be the beneficial owner to the extent of the number of shares held by such participant in the records of the PCD Nominee. All lodgments, trades and uplifts on these shares will have to be coursed through a participant. Ownership and transfers of beneficial interests in the shares will be reflected, with respect to the participant’s aggregate holdings, in the PDTC system, and with respect to each beneficial owner’s holdings, in the records of the participants. Beneficial owners are thus advised that in order to exercise their rights as beneficial owners of the lodged shares, they must rely on their participant-brokers and/or participant custodians.

Any beneficial owner of shares who wishes to trade his interests in the shares must execute the trade through a participant. The participant can execute PSE trades and non-PSE trades of lodged equity securities through the PDTC system. All matched transactions in the PSE trading system will be fed through the SCCP and into the PDTC system. Once it is determined on the settlement date (T+3) that there are adequate securities in the securities settlement account of the participant-seller and adequate cleared funds in the settlement bank account of the participant-buyer, the PSE trades are automatically settled in the CCCS system, in accordance with the SCCP and PDTC Rules and Operating Procedures. Once settled, the beneficial ownership of the securities is transferred from the participant-seller to the participant-buyer without the physical transfer of stock certificates covering the traded securities.

If a shareholder wishes to withdraw his stockholdings from the PDTC System, the PDTC has a procedure of upliftment under which PCD Nominee will transfer back to the shareholder the legal title to the shares lodged. The uplifting shareholder shall follow the Rules and Operating Procedure of the PDTC for the upliftment of shares lodged under the name of PCD Nominee. The transfer agent shall prepare and send a Registry Confirmation Advice to the PDTC covering the new number of shares lodged under PCD Nominee. The expenses for upliftment are generally on the account of the uplifting shareholder.

The difference between the depository and the registry would be on the recording of the shares in the issuing corporations’ books. In the depository set-up, shares are simply immobilized, wherein customers’ certificates are cancelled and a confirmation advice is issued in the name of PCD Nominee Corp. Transfers among/between broker and/or custodian accounts, as the case may be, will only be made within the book-entry system of PDTC. However, as far as the issuing corporation is concerned, the underlying certificates are in the nominee’s name. In the registry set-up, settlement and recording of ownership of traded securities will already be directly made in the corresponding issuing company’s transfer agents’ books or system. Likewise, recording will already be at the beneficiary level (whether it be a client or a registered custodian holding securities for its clients), thereby removing from the broker its current “de facto” custodianship role.

#### **AMENDED RULE ON LODGMENT OF SECURITIES**

On June 24, 2009, the PSE apprised all listed companies and market participants through Memorandum No. 2009-0320 that commencing on July 1, 2009, as a condition for the listing and trading of the securities of an applicant company, the applicant company shall electronically lodge its registered securities with the PDTC or any other entity duly authorized by the Philippine SEC, without any jumbo or mother certificate, in compliance with the requirements of Section 43 of the SRC. In compliance with the foregoing requirement, actual listing and trading of securities on the scheduled listing date shall take effect only after submission by the applicant company of the documentary requirements stated in Article III, Part A of the PSE’s Revised Listing Rules.

For listing applications, the amended rule on lodgment of securities is applicable to:

- The offer shares/securities of the applicant company in the case of an initial public offering;

- The shares/securities that are lodged with the PDTC, or any other entity duly authorized by the Philippine SEC in the case of a listing by way of introduction;
- New securities to be offered and applied for listing by an existing listed company; and
- Additional listing of securities of an existing listed company.

Pursuant to the said amendment, the PDTC issued an implementing procedure in support thereof as follows:

- For new companies to be listed at the PSE as of July 1, 2009 the usual procedure will be observed but the Transfer Agent of the companies shall no longer issue a certificate to PCD Nominee Corp. but shall issue a Registry Confirmation Advice, which shall be the basis for the PDTC to credit the holdings of the Depository Participants on listing date.
- On the other hand, for existing listed companies, the PDTC shall wait for the advice of the Transfer Agents that it is ready to accept surrender of PCNC jumbo certificates and upon such advice the PDTC shall surrender all PCNC jumbo certificates to the Transfer Agents for cancellation. The Transfer Agents shall issue a Registry Confirmation Advice to PCNC evidencing the total number of shares registered in the name of PCNC in the issuer's registry as of confirmation date.

Further, the PSE apprised all listed companies and market participants on May 21, 2010, through Memorandum No. 2010-0246 that the Amended Rule on Lodgement of Securities under Section 16 of Article III, Part A of the Revised Listing Rules of the PSE shall apply to all securities that are lodged with the PDTC or any other entity duly authorized by the PSE.

#### **ISSUANCE OF STOCK CERTIFICATES FOR CERTIFICATED SHARES**

On or after the listing of the shares on the PSE, any beneficial owner of the shares may apply with PDTC through his broker or custodian-participant for withdrawal from the book-entry system and return to the conventional paper-based settlement. If a shareholder wishes to withdraw his stockholdings from the PDTC system, the PDTC has a procedure of upliftment under which the PCD Nominee will transfer back to the shareholder the legal title to the shares lodged. The uplifting shareholder shall follow the Rules and Operating Procedures of the PDTC for the uplifting of the shares lodged under the name of the PCD Nominee. The transfer agent shall prepare and send a Registry Confirmation Advice to the PDTC covering the new number of shares lodged under the PCD Nominee.

Upon the issuance of stock certificates for the shares in the name of the person applying for upliftment, such shares shall be deemed to be withdrawn from the PDTC book-entry settlement system, and trading on such shares will follow the normal process for settlement of certificated securities. The expenses for upliftment of the shares into certificated securities will be charged to the person applying for upliftment. Pending completion of the upliftment process, the beneficial interest in the shares covered by the application for upliftment is frozen and no trading and book-entry settlement will be permitted until the relevant stock certificates in the name of the person applying for upliftment shall have been issued by the relevant company's transfer agent.

#### **AMENDED RULE ON MINIMUM PUBLIC OWNERSHIP**

Under the PSE Amended Rule on Minimum Public Ownership, listed companies are required, at all times, to maintain a minimum percentage of listed securities held by the public of 10.0% of the listed companies' total issued and outstanding shares (i.e., exclusive of treasury shares), or at such percentage that may be prescribed by the PSE. For purposes of determining compliance with the MPO, shares held by the following are generally considered "held by the public": (a) individuals (for as long as the shares held are not of a significant size (i.e., less than 10.0%) and are non-strategic in nature); (b) trading participants (for as long as the shares held are non-strategic in nature); (c) investment and mutual funds; (d) pension funds; (e) PCD nominees if this account constitutes a number of shareholders, none of which has significant holdings (provided that if an owner of shares under the PCD Nominee has a shareholding that is 10% or more of the total issued and outstanding shares, then this shareholder is considered a principal stockholder); and (f) social security funds.

Listed companies that become non-compliant with the MPO on or after January 1, 2013 will be suspended from trading for a period of not more than six months and will automatically be delisted if it remains non-compliant with the MPO after the lapse of the suspension period. Suspended or delisted shares will not be traded on the exchange. In addition, sale of shares of listed companies that do not maintain the MPO are not considered publicly listed for taxation purposes and should, therefore, be subjected to capital gains tax and documentary stamp tax.

In accordance with the SEC Memorandum Circular No. 13 Series of 2017 issued on December 1, 2017, the MPO requirement on companies that undertake initial public offerings was increased from 10.0% to 20.0%, while existing publicly listed companies as of December 2017 remain to be subject to the 10.0% MPO. The PSE rule on MPO requires that listed companies shall, at all times, maintain a minimum percentage of listed securities held by the public of 10.0% or 20.0%, as applicable, of the listed companies' issued and outstanding shares, exclusive of any treasury shares. Pursuant to PSE Circular No. 2020-0076, the 20% MPO requirement will also apply to companies applying for listing by way of introduction and companies undertaking a backdoor listing.

The Philippine SEC is also looking at increasing the MPO requirement of existing listed companies to 25.0% for all listed companies; however, such proposed rules on increasing the MPO have yet to be adopted.

## PHILIPPINE TAXATION

*The following is a general description of certain Philippine tax aspects of the investment in the Issuer. The following discussion is based upon laws, regulations, rulings, income tax treaties, administrative practices and judicial decisions in effect at the date of this prospectus and is subject to any changes occurring after such date. Subsequent legislative, judicial or administrative changes or interpretations may be retroactive and could affect the tax consequences to the prospective investor.*

*The tax treatment of a prospective investor may vary depending on such investor's particular situation and certain investors may be subject to special rules not discussed below. This summary does not purport to be a comprehensive description of all of the tax considerations that may be relevant to a decision to invest in the shares and does not purport to deal with the tax consequences applicable to all categories of investors, some of which (such as dealers in securities) may be subject to special rates. This discussion does not provide information regarding the tax aspects of acquiring, owning, holding or disposing of the shares under applicable tax laws of other applicable jurisdictions and the specific Philippine tax consequences in light of particular situations of acquiring, owning, holding and disposing of the shares in such other jurisdictions.*

### **EACH PROSPECTIVE INVESTOR SHOULD CONSULT ITS OWN TAX ADVISOR AS TO THE PARTICULAR TAX CONSEQUENCES OF THE ACQUISITION, OWNERSHIP AND DISPOSITION OF THE COMMON SHARES, INCLUDING THE APPLICABILITY AND EFFECT OF LOCAL AND NATIONAL TAX LAWS.**

*As used in this section, the term "resident alien" refers to an individual whose residence is within the Philippines and who is not a citizen thereof. A "non-resident alien" is an individual whose residence is not within the Philippines and who is not a citizen thereof. A non-resident alien who is actually within the Philippines for an aggregate period of more than 180 days during any calendar year is considered a "non-resident alien engaged in trade or business in the Philippines;" otherwise, such non-resident alien who is actually within the Philippines for an aggregate period of 180 days or less during any calendar year is considered a "non-resident alien not engaged in trade or business in the Philippines." A "domestic corporation" is created or organized under the laws of the Philippines; a "resident foreign corporation" is a non-Philippine corporation engaged in trade or business in the Philippines; and a "non-resident foreign corporation" is a non-Philippine corporation not engaged in trade or business in the Philippines. The term "non-resident holder" means a holder of shares of stock:*

- who is an individual and is neither a citizen nor a resident of the Philippines, or an entity which is a non-resident foreign corporation; and
- should an income tax treaty be applicable, whose ownership of shares of stock is not effectively connected with a fixed base or a permanent establishment in the Philippines.

## PHILIPPINE TAXATION

On January 1, 2018, Republic Act No. 10963, otherwise known as the Tax Reform for Acceleration and Inclusion ("**TRAIN Law**") took effect. The TRAIN Law amended various provisions of the National Internal Revenue Code of 1997 ("**Philippine Tax Code**"), including those on ordinary income tax of individuals, capital gains tax on the sale and disposition of shares of stock, estate tax, donor's tax, and documentary stamp tax.

Republic Act No. 11534, or the Corporate Recovery and Tax Incentives for Enterprises Act ("**CREATE**"), which became effective on April 11, 2021, amended the fiscal incentives and lowered the regular corporate income tax rate from 30% to 25% (with retroactive application from July 1, 2020). The CREATE also provides for a uniform tax rate of 15% imposed on capital gains from sale of shares of stock not traded in the stock exchange on all types of taxpayers.

### **Corporate Income Tax**

A domestic corporation is subject to a tax of 25% of its taxable income from all sources within and outside the Philippines, effective July 1, 2020, provided that domestic corporations with net taxable income not exceeding ₱5,000,000.00 and with total assets not exceeding ₱100,000,000.00 (excluding land on which the particular business entity's office, plant, and equipment are situated during the taxable year for which the tax is imposed) (referred to as micro, small, and medium enterprises, or MSMEs), shall be taxed at 20.0%. Taxable net income refers to items of income specified under Section 32 (A) of the Philippine Tax Code, less itemized deductions under Section 34 of the Tax Code or those allowed under special laws, or the optional standard deduction

equivalent to an amount not exceeding 40% of the corporation's gross income. Passive income of a domestic corporations are taxed as follows: (a) gross interest income from Philippine currency bank deposits and yield from deposit substitutes, trust funds and similar arrangements as well as royalties from sources within the Philippines which are generally taxed at the lower final withholding tax rate of 20% of the gross amount of such income; and (b) interest income from a depository bank under the expanded foreign currency deposit system which is subject to a final tax at the rate of 15% of such income.

Beginning July 1, 2020 and until June 30, 2023, a minimum corporate income tax of 1% of the gross income as of the end of the taxable year is imposed on a domestic corporation beginning on the fourth taxable year immediately following the year in which such corporation commenced its business operations, when the minimum corporate income tax is greater than the ordinary corporate income tax, provided that after June 30, 2023, the rate of minimum corporate income tax shall be 2% of the gross income as of the end of the taxable year. Any excess of the minimum corporate income tax, however, over the ordinary corporate income tax shall be carried forward and credited against the latter for the three immediately succeeding taxable years. Likewise, subject to certain conditions, the minimum corporate income tax may be suspended with respect to a corporation which suffers losses (1) on account of a prolonged labor dispute, or (2) because of force majeure, or (3) because of legitimate business reverses.

### **Taxes on Transfer of Shares Listed and Traded at the PSE**

Unless an applicable income tax treaty exempts the sale from income and/or percentage tax (please see discussion below on tax treaties), a sale or other disposition of shares of stock through the facilities of the PSE by a resident or a non-resident holder (other than a dealer in securities) is subject to a percentage tax usually referred to as a stock transaction tax at the rate of 0.6% of the gross selling price or gross value in money of the shares of stock sold or otherwise disposed, which shall be paid by the seller or transferor. This tax is required to be collected by and paid to the Government by the selling stockbroker on behalf of its client. The stock transaction tax is classified as a percentage tax and is paid in lieu of a capital gains tax. Under certain income tax treaties, the exemptions from capital gains tax may not be applicable to stock transaction tax.

In addition, VAT of 12.0% is imposed on the commission earned by the PSE-registered broker who facilitated the sale, barter, exchange or disposition through the PSE, and is generally passed on to the client, the seller or transferor.

The stock transaction tax will not apply if the shares are sold outside the facilities of the PSE, including during a trading suspension. PSE Memorandum CN-No. 2012-0046 dated August 22, 2012 provides that immediately after December 31, 2012, the Philippine SEC shall impose a trading suspension for a period of not more than six months, on shares of a listed company who has not complied with the Rule on Minimum Public Ownership (“MPO”) which requires listed companies to maintain a minimum percentage of listed securities held by the public at 10% of the listed companies issued and outstanding shares at all times. SEC Memorandum Circular No. 13, Series of 2017 (the “**SEC 2017 Circular**”), which took effect on December 5, 2017, requires a higher MPO requirement of 20%. The SEC 2017 Circular covers any company applying for the registration of its shares of stocks for the purpose of conducting an IPO from December 5, 2017 but does not cover existing publicly-listed companies as they remain subject to the 10% MPO requirement. The sale of such listed company' shares during the trading suspension may be effected only outside the trading system of the PSE and shall therefore be subject to taxes on the sale of shares that are not listed or traded at the stock exchange (i.e., capital gains tax, documentary stamp tax, and possibly donor's tax if the fair market value of the shares of stock sold is greater than the consideration or the selling price, as the amount exceeding the selling price shall be deemed a gift subject to donor's tax under Section 100 of the Tax Code). However, under the TRAIN Law, exchanges made in the ordinary course of business—i.e., a transaction which is *bona fide*, at arm's length and free from donative intent, will be considered as made for an adequate and full consideration in money or money's worth and will not be subject to donor's tax. Companies which do not comply with the MPO after the lapse of the trading suspension shall be automatically delisted.

The stock transaction tax will also not apply if the shares sold are issued by a corporation that does not meet the MPO requirement, even if the sale is done through the facilities of the PSE. Revenue Regulations No. 16-2012 (“**R.R. 16-12**”) provides that the sale, barter, transfer, and/or assignment of shares of listed companies that fail to meet the MPO requirement after December 31, 2012 will be subject to capital gains tax and documentary stamp tax. R.R. 16-12 also requires publicly listed companies to submit public ownership reports to the BIR within 15 days after the end of each quarter.

## **Capital Gains Tax, if the Sale Was Made Outside the PSE**

The net capital gains realized by a citizen, resident alien, non-resident alien, whether or not engaged in trade or business within the Philippines, or a domestic corporation (other than a dealer in securities) during each taxable year from the sale, exchange or disposition of shares of stock outside the facilities of the PSE, are subject to capital gains tax at the rate of 15.0% of the net capital gains realized during the taxable year.

The net capital gains realized by a resident foreign corporation or a non-resident foreign corporation during each taxable year from the sale, exchange or disposition of shares of stock in a domestic corporation outside the facilities of the PSE are also subject to the rate of 15% of the net capital gains realized during the taxable year. Capital gains tax will also apply if the publicly listed company that issued the shares sold does not comply the MPO requirement.

Furthermore, if the fair market value of the shares of stock in a Philippine corporation sold outside the facilities of the local stock exchange is greater than the consideration received by the seller or the selling price, the amount by which the fair market value of the shares exceeds the selling price shall be deemed a gift that is subject to donor's tax under Section 100 of the Tax Code; provided, however, that a sale, exchange or other transfer of such shares outside the facilities of the local stock exchange made in the ordinary course of business (a transaction which is bona fide, at arm's length and free from donative intent) will be considered as made for an adequate and full consideration in money or money's worth and will not be subject to donor's tax.

Exemption from capital gains tax may be provided under income tax treaties executed between the Philippines and the country of residence or domicile of the non-resident holder. If an applicable income tax treaty exempts net gains from such sale from capital gains tax, either a request for confirmation on the propriety of the withholding tax applied or an application for tax treaty relief has to be filed with the BIR in accordance with BIR regulations, and approved by the BIR, to avail of the exemption. (Please see discussion below on tax treaties.)

The transfer of shares shall not be recorded in the books of a company, unless the BIR has issued an electronic Certificate Authorizing Registration (“**eCAR**”), certifying that capital gains and documentary stamp taxes relating to the sale or transfer have been paid or, where applicable, tax treaty relief has been confirmed by the International Tax Affairs Division of the BIR (“**BIR ITAD**”) in respect of the capital gains tax, or other conditions have been met.

## **Tax on Dividends**

Cash and property dividends received from a domestic corporation by individual shareholders who are either citizens or residents of the Philippines are subject to a final withholding tax at the rate of 10%, which shall be withheld by the Issuer. Cash and property dividends received by non-resident alien individuals engaged in trade or business in the Philippines are subject to a 20% final withholding tax on the gross amount thereof, while cash and property dividends received by non-resident alien individuals not engaged in trade or business in the Philippines are subject to a final withholding tax at 25% of the gross amount, subject, however, to the applicable preferential tax rates under income tax treaties executed between the Philippines and the country of residence or domicile of such non-resident alien individuals.

Cash and property dividends received from a domestic corporation by another domestic corporation or by a resident foreign corporation are not subject to income tax while those received by a non-resident foreign corporation are generally subject to income tax at a final withholding tax rate of 25.0%, effective January 1, 2021 pursuant to CREATE, which became effective on April 11, 2021.

The 25.0% income tax rate (with retroactive application from January 1, 2021 pursuant to CREATE, which became effective on April 11, 2021) for dividends paid to a non-resident foreign corporation may be reduced to a lower rate of 15.0% if tax sparing applies, which is when: (i) the country where the non-resident foreign corporation is domiciled imposes no tax on foreign sourced dividends or (ii) the country of domicile of the non-resident foreign corporation allows at least 10.0% credit equivalent for taxes deemed to have been paid in the Philippines.

In order to avail of the 15% tax sparing rate, Revenue Memorandum Order No. 46-2020 (*Guidelines and Procedures for the Availment of the Reduced Rate of 15% on Intercompany Dividends Paid by a Domestic Corporation to a Non-Resident Foreign Corporation Pursuant to Section 28(B)(5)(B) of the National Internal*

*Revenue Code of 1997, as amended dated December 23, 2020*) states the following general requirements that shall accompany the first application for the reduced dividend rate of 15% in a given taxable year:

- (1) letter-request which shall provide a background of the transaction, the relief sought and the legal basis;
- (2) duly accomplished BIR Form No. 0901-TS;
- (3) original copy of the apostilled/duly authenticated Tax Residence Certificate issued by the tax authority of the country of the domicile;
- (4) apostilled/duly authenticated copy of the NRFC's articles of incorporation and proof of establishment in its country of residence;
- (5) original copy of apostilled/duly authenticated Special Power of Attorney (SPA) issued by the NRFC to its authorized representative;
- (6) certified true copy of the Board of Directors' resolution of the domestic corporation approving the issuance of dividends, which shall include the amount of dividends, and dates of declaration, record and payment, among others;
- (7) original copy of the sworn statement executed by the corporate secretary of the domestic corporation stating the legal and beneficial owners, if applicable, of all issued and outstanding shares as of record date, their corresponding subscriptions, date/s of acquisition, percentage of ownership and the allocation of dividend;
- (8) certified true copy of the General Information Sheet (GIS) of the domestic corporation for the year or period immediately preceding the date of declaration, whichever is more applicable
- (9) certified true copy of the Audited Financial Statements (AFS) of the domestic corporation stamped "received" by the BIR and Securities and Exchange Commission, which was used as the basis of such dividend declaration; and
- (10) proof of remittance of the dividend payments.

A domestic corporation is not required to first secure a ruling from the BIR in order to use the tax sparing rate when it remits the dividends. However, it is required to determine if under the law of the country of domicile of the non-resident foreign corporation, such non-resident foreign corporation is granted the applicable "deemed paid" tax credit, or an exemption from income tax on such dividends.

The abovementioned tax rates are without prejudice to applicable preferential tax rates under income tax treaties in force between the Philippines and the country of domicile of the non-resident holder. (Please see discussion on tax treaties below.)

The BIR recently revised its procedures for availment of tax treaty relief on dividends by issuing Revenue Memorandum Order No. 14-21 (*Streamlining the Procedures and Documents for the Availment of Treaty Benefits*, dated March 31, 2021) as clarified by Revenue Memorandum Circular No. 77-21 (*Clarification on Certain Provisions of Revenue Memorandum Order No. 14-21*, dated June 15, 2021). In accordance with the foregoing regulations, all income items derived by nonresident taxpayers entitled to tax treaty relief shall be confirmed by the BIR through filing of: (i) a **request for confirmation** by the withholding agent, or (b) a **tax treaty relief application** ("TTRA") by the nonresident taxpayer, with the required supporting documents in either case.

### ***Request for Confirmation***

The withholding agent/income payor may apply the preferential tax treaty rate on the dividend income of the non-resident foreign shareholder by relying the submission by such shareholder of the following documents before the dividend income is paid: (a) on an application form for treaty purposes (BIR Form 0901-D for dividends), an authenticated/apostilled tax residency certificate duly issued by the relevant foreign tax authority in favor of the shareholder, and (c) the relevant provision of the applicable tax treaty which prescribes the preferential tax treatment on dividend income. If the tax treaty rate was applied, the withholding agent/income payor must file

with the BIR ITAD a request for confirmation of the use of the tax treaty rate. The request for confirmation must be filed after the payment of the withholding tax and in no case later than the last day of the fourth month following the close of the relevant taxable year. Revenue Memorandum Circular No. 77-21 prescribes the filing of one consolidated request for confirmation per nonresident income recipient, regardless of the number and type of income payments during the year. Revenue Memorandum Circular No. 77-21 also provides for a list of all documentary requirements that have to be submitted in support of the request for confirmation.

If the BIR determines that the withholding tax rate used is lower than the applicable tax rate that should have been applied, or that the non-resident taxpayer is not entitled to treaty benefits, the request for confirmation will be denied and it will require the withholding agent/income payor to pay the deficiency taxes plus surcharge, interest and penalties.

### ***TTRA***

In case the withholding agent/income payor used the regular rate under the Tax Code, the non-resident foreign shareholder may, at any time after its receipt of the dividend income, file a TTRA with ITAD. Similar to a request for confirmation, the TTRA must also be supported by the documents specified in Revenue Memorandum Circular No. 77-21.

If the BIR determines that the withholding tax rate applied is higher than the rate that should have been applied, the BIR will issue a certificate confirming the non-resident income recipient's entitlement to treaty benefits, and the shareholder may apply for a refund of excess withholding tax within the two-year period provided in Section 229 of the Tax Code. The claim for refund of the shareholder may also be filed simultaneously with the TTRA. If the regular tax rate is withheld by the Issuer instead of the reduced rates applicable under an income tax treaty, the non-resident holder of the shares may file a claim for refund from the BIR. However, because the refund process in the Philippines requires the filing of an administrative claim and the submission of supporting information, and may also involve the filing of a judicial appeal, it may be impractical to pursue such a refund.

With respect to the availment of preferential rates for dividends under an income tax treaty, most tax treaties to which the Philippines is a party provide for a preferential tax rate of either 15% or 20%, in cases where the dividend arises in the Philippines and is paid to a resident of the other contracting state. Most income tax treaties also provide that reduced withholding tax rates shall not apply if the recipient of the dividend, who is a resident of the other contracting state, carries on business in the Philippines through a permanent establishment and the holding of the relevant dividend-earning interest is effectively connected with such permanent establishment. In these cases, however, the provisions on business profits or independent personal services shall apply.

Revenue Memorandum Circular No. 076-20 (*Clarifying Certain Issues on the Filing of the Related Party Transaction Form*) clarifies that the TTRAs filed with the BIR ITAD in relation to payments made to related parties must be indicated in the RPT Form. The dividends between and among related parties (either paid or payable, received or receivable) should likewise be disclosed in the RPT Form.

As proof of dividend payments to related parties, certain documents such as a notarized board of directors' resolution approving the issuance of dividends, a certification under oath by the corporate secretary/custodian banks/depository account holders/broker dealers stating in detail the legal and beneficial owners of all issued and outstanding shares as of record date, their corresponding subscriptions, date/s of acquisition, percentage of ownership and the allocation of dividend, and proof of payment of such dividends must be maintained by the Issuer.

Transfer taxes (e.g. documentary stamp tax, local transfer tax) may be payable if the dividends declared are property dividends, depending on the type of property distributed as dividends. Stock dividends distributed pro rata to any holder of shares of stock are generally not subject to Philippine income tax. However, the sale, exchange or disposition of shares received as stock dividends by the shareholder is subject to stock transaction tax if the transfer is through a local stock exchange; or if the transfer is made outside of the exchange, capital gains tax; and documentary stamp tax.

### **Preferential Rates under Income Tax Treaties**

The following table lists some of the countries with which the Philippines has tax treaties and the tax rates currently applicable to non-resident holders who are residents of those countries:

	<b>Dividends (%)</b>	<b>Stock transaction tax on sale or disposition effected through the PSE (%)<sup>(9)</sup></b>	<b>Capital Gains tax due on disposition of Shares outside the PSE (%)</b>
Canada	25 <sup>(1)</sup>	0.6	May be exempt <sup>(13)</sup>
China	15 <sup>(2)</sup>	Exempt <sup>(10)</sup>	May be exempt <sup>(13)</sup>
France	15 <sup>(3)</sup>	Exempt <sup>(11)</sup>	May be exempt <sup>(13)</sup>
Germany	15 <sup>(4)</sup>	Exempt <sup>(12)</sup>	May be exempt <sup>(13)</sup>
Japan	15 <sup>(5)</sup>	0.6	May be exempt <sup>(13)</sup>
Singapore	25 <sup>(6)</sup>	0.6	May be exempt <sup>(13)</sup>
United Kingdom	25 <sup>(7)</sup>	0.6	Exempt <sup>(14)</sup>
United States	25 <sup>(8)</sup>	0.6	Exempt <sup>(15)</sup>

*Notes:*

- (1) 15% if recipient company controls at least 10% of the voting power of the company paying the dividends; 25% in all other cases.
- (2) 10% if the beneficial owner is a company which holds directly at least 10% of the capital of the company paying the dividends; 15% in all other cases.
- (3) 10% if the recipient company (excluding a partnership) holds directly at least 10% of the voting shares of the company paying the dividends; 15% in all other cases.
- (4) 5% if the recipient company (excluding a partnership) holds directly at least 70% of the capital of the company paying the dividends; 10% if the recipient company (excluding a partnership) holds directly at least 25% of the capital of the company paying the dividends; 15% in all other cases.
- (5) 10% if the recipient company holds directly at least 10% of either the voting shares of the company paying the dividends or of the total shares issued by that company during the period of six months immediately preceding the date of payment of the dividends; 15% in all other cases.
- (6) 15% if during the part of the taxable year of the paying company which precedes the date of payment of dividends and during the whole of its prior taxable year at least 15% of the outstanding shares of the voting shares of the paying company were owned by the recipient company; 25% in all other cases.
- (7) 15% if the recipient company is a company which controls directly or indirectly at least 10% of the voting power of the company paying the dividends; 25% in all other cases.
- (8) 20% if during the part of the taxable year of the paying company which precedes the date of payment of dividends and during the whole of its prior taxable year, at least 10% of the outstanding shares of the voting shares of the paying corporation were owned by the recipient corporation; 25% in other cases. Notwithstanding the rates provided under the Convention between the Government of the Republic of the Philippines and the Government of the United States of America with respect to Taxes on Income, corporations which are residents of the United States may avail of the 15% withholding tax rate under the tax-sparing clause of the Philippine Tax Code provided certain conditions are met.
- (9) If the stock transaction tax is not expressly included in the tax treaty, the income recipient will be subject to stock transaction tax at the rate of 0.6% of the gross selling price as provided under Section 127 of the NIRC as amended by Section 39 of the TRAIN Law.
- (10) Article 2(1)(b) of the Agreement between the Government of the Republic of the Philippines and the Government of the People's Republic of China for the Avoidance of Double Taxation and the Prevention of Fiscal Evasion with Respect to Taxes on Income was signed on November 18, 1999.
- (11) Article 1 of the Protocol to the Tax Convention between the Government of the Republic of the Philippines and the Government of the French Republic Signed on January 9, 1976 was signed in Paris, France on June 26, 1995.
- (12) Article 2 (3)(a) of Agreement between the Government of the Republic of the Philippines and the Federal Republic of Germany for the Avoidance of Double Taxation with Respect to Taxes on Income and Capital signed on September 9, 2013.

- (13) *Capital gains are taxable only in the country where the seller is a resident, provided the shares are not those of a corporation, the assets of which consist principally of real property situated in the Philippines, in which case the sale is subject to Philippine taxes.*
- (14) *Under the income tax treaty between the Philippines and the United Kingdom, capital gains on the sale of the shares of Philippine corporations are subject to tax only in the country where the seller is a resident, irrespective of the nature of the assets of the Philippine corporation.*
- (15) *Article 14 (2) of the Convention between the Government of the Republic of the Philippines and the Government of the United States of America with Respect to Taxes on Income provides that capital gains other than from alienation of real property or tangible personal or movable property are taxable only in the country where the alienator is a resident.*

When availing of capital gains tax exemption on the sale of shares of stock under an income tax treaty, a certification from the BIR on the exemption from capital gains tax pursuant to the tax treaty shall be necessary in order to completely implement the transfer. For sale of shares made outside the PSE, a CAR from the BIR is required before the transfer is registered in the stock and transfer book of the issuer corporation. The BIR issues the CAR only after verifying that the applicable taxes have been paid. Thus, in lieu of proof of payment of capital gains tax, the certification from the BIR confirming the capital gains tax exemption of the seller should be submitted to the BIR office processing the CAR.

The requirements for a request for confirmation or TTRA in respect of capital gains tax or the stock transaction tax on the sale of shares are set out in Revenue Memorandum Order No. 14-21 (*Streamlining the Procedures and Documents for the Availment of Treaty Benefits*, dated March 31, 2021) as clarified by Revenue Memorandum Circular No. 77-21 (*Clarification on Certain Provisions of Revenue Memorandum Order No. 14-21*, dated June 15, 2021). The requirements include an application form for treaty purposes (BIR Form 0901-C for capital gains) and an authenticated/apostilled tax residency certificate duly issued by the tax authority of the foreign country where the seller is a resident. If the seller is a juridical entity, authenticated certified true copies of its articles of incorporation or association issued by the proper government authority should also be submitted to the BIR in addition to the certification of its residence from the tax authority of its country of residence.

Revenue Memorandum Circular No. 77-21 clarified that the deadline for filing of a request for confirmation by the withholding agent/income payor is any time after the transaction but must not be later than the last day of the fourth month following the close of the taxable year when the income is paid or when the transaction is consummated. In availing tax treaty benefits, the withholding agent may rely on the submitted BIR Form No. 0901 (Application Form for Treaty Purposes), TRC, and the relevant provision of the tax treaty on whether to apply the treaty rates. If the withholding agent applied the treaty rates, he shall file with the BIR ITAD a request for confirmation on the correctness of the withholding tax rates applied on the income. The request for confirmation shall be filed any time after the payment of withholding tax but not shall not be later than the last day of the fourth (4th) month following the close of each taxable year.

If the regular rates have been imposed on the income, the non-resident shall file a TTRA with BIR ITAD to prove its entitlement to treaty benefits. Failure to prove the same may result in the confirmation of the tax rate previously applied on the income, and in the eventual denial of the TTRA.

If the BIR determines that the withholding tax rate applied is lower than the rate that should have been applied on an item of income pursuant to the treaty, or that the non-resident taxpayer is not entitled to treaty benefits, it will issue a BIR Ruling denying the request for confirmation or TTRA. Consequently, the withholding agent shall pay the deficiency tax plus penalties.

On the contrary, if the withholding tax rate applied is proper or higher than the rate that should have been applied, the BIR will issue a certificate confirming the non-resident income recipient's entitlement to treaty benefits. In the latter case, the taxpayer may apply for a refund of excess withholding tax.

### **Documentary Stamp Tax**

The original issuance of shares is subject to documentary stamp tax (“DST”) of ₱2.00 on each ₱200.00 par value, or fraction thereof, of the shares issued. There is also a DST imposed on the transfer of shares is subject to a documentary stamp tax at a rate of ₱1.50 on each ₱200.00, or fractional part thereof, of the par value of the Shares. The DST is imposed on the person making, signing, issuing, accepting or transferring the document and is thus payable by either or both the vendor or the vendee of the shares.

However, the sale, barter or exchange of shares of stock listed and traded at the PSE is exempt from DST.

## **Estate and Gift Taxes**

Shares issued by a domestic corporation are deemed to have a Philippine *situs* and their transfer by way of a succession or donation, even if made by a non-resident decedent or donor outside the Philippines, is subject to Philippine estate and donor's taxes.

The transfer of the Offer Shares upon the death of a registered holder to his heirs by way of succession, whether such an individual was a citizen of the Philippines or an alien, regardless of residence, shall be subject to an estate tax which is levied on the net estate of the deceased at a uniform rate of 6.0%. An Investor shall be subject to donor's tax at a uniform rate of 6.0% based on the value of the total gift on the transfer of the Offer Shares by gift in excess of ₱250,000.00 made during a calendar year, regardless of the relation of the donor to the donee. The estate or donor's taxes payable in the Philippines may be credited with the amount of any estate or donor's taxes imposed by the authority of a foreign country, subject to limitations on the amount to be credited, and the tax status of the donor. Estate and donors' taxes, however, shall not be collected in respect of intangible personal property, such as shares of stock:

- (1) if the decedent at the time of his death or the donor at the time of the donation was a citizen and resident of a foreign country which at the time of his death or donation did not impose a transfer tax of any character, in respect of intangible personal property of citizens of the Philippines not residing in that foreign country; or
- (2) if the laws of the foreign country of which the decedent or donor was a citizen and resident at the time of his death or donation allows a similar exemption from transfer or death taxes of every character or description in respect of intangible personal property owned by citizens of the Philippines not residing in that foreign country.

In case shares of stock are transferred for less than an adequate and full consideration in money or money's worth, the amount by which the fair market value of the shares of stock exceeded the value of the consideration may be deemed a gift, and donor's taxes may be imposed on the transferor of the shares of stock, based on Section 100 of the Philippine Tax Code, provided that a transfer of property made in the ordinary course of business (a transaction which is a bona fide, at arm's length, and free from any donative intent), will be considered as made for an adequate and full consideration in money or money's worth.

## **TAXATION OUTSIDE THE PHILIPPINES**

Shares of stock in a domestic corporation are considered under Philippine law to be situated in the Philippines and any gain derived from their sale is entirely from Philippine sources; hence, such gain is subject to Philippine income tax and the transfer of such shares by gift (donation) or succession is subject to the donors' tax or estate tax.

The tax treatment of a non-resident holder in jurisdictions outside the Philippines may vary depending on the tax laws applicable to such holder by reason of its domicile or business activities and such holder's particular situation. This Prospectus does not discuss the tax considerations of non-resident holders of shares of stock under laws other than those of the Philippines.

## PLAN OF DISTRIBUTION

790,125,000 Institutional Offer Shares, or 75% of the Firm Shares, are (subject to re-allocation as described below) being offered for sale (i) outside the United States by Merrill Lynch (Singapore) Pte. Ltd. (“**BofA Securities**”) and UBS AG Singapore Branch (“**UBS**”) (collectively, the “**Joint Global Coordinators and Joint Bookrunners**”) in offshore transactions in reliance on Regulation S under the U.S. Securities Act, and (ii) to certain qualified buyers and other investors in the Philippines by BDO Capital & Investment Corporation (“**BDO Capital**”), BPI Capital Corporation (“**BPI Capital**”) and PNB Capital and Investment Corporation (“**PNB Capital**”) (collectively, the “**Joint Domestic Lead Underwriters and Joint Bookrunners**”, and together with the Joint Global Coordinators and Joint Bookrunners, the “**Joint Bookrunners**”) (the “**Institutional Offer**”).

263,375,000 Firm Shares (or 25% of the Firm Shares) (the “**Trading Participants and Retail Offer Shares**”) (subject to re-allocation as described below) are being offered in the Philippines by the Joint Domestic Lead Underwriters and Joint Bookrunners at the Offer Price through the PSE Trading Participants (the “**Trading Participants Offer**”) and to local small investors (“**LSIs**”) under the Local Small Investors Program of the PSE (the “**Trading Participants and Retail Offer**”). The number of Offer Shares to be made available to the PSE Trading Participants and LSIs, respectively, will be 210,700,000 Firm Shares (or about 20% of the Firm Shares) (the “**Trading Participants Offer Shares**”) and 52,675,000 Firm Shares (or 5% of the Firm Shares) (the “**Retail Offer Shares**”), respectively, subject to re-allocation as described below.

The allocation of the Offer Shares between the Trading Participants and Retail Offer and the Institutional Offer is subject to adjustment as agreed between the Issuer and the Joint Bookrunners. The Joint Bookrunners will underwrite, on a firm commitment basis, the Firm Shares, subject to any reallocation, clawback, clawforward or any other such mechanisms as described below. There is no arrangement for any of the Joint Bookrunners to return any of the Offer Shares relating to the Trading Participants and Retail Offer or the Institutional Offer to the Issuer or the Selling Shareholders. Notwithstanding the Joint Global Coordinators and Joint Bookrunners being named in this Prospectus, offers or sales by the Joint Global Coordinators and Joint Bookrunners of Offer Shares outside the Philippines are not governed by Philippine laws.

The role of the Joint Financial Advisors include the following, among others: (i) initial preparation work for the transaction (including, but not limited to: assisting the Issuer on transaction management and coordination, valuation and projections, due diligence preparation, drafting of the Prospectus and Registration Statement, and other items as may be required by regulatory bodies); (ii) preparation work for the launch of the Offer (including, but not limited to: advising and assisting the Issuer on marketing and syndicate strategy, assisting the Issuer in addressing and responding to investor feedback and advising the Issuer on the offer structure); and (iii) marketing and execution work for the Offer (including, but not limited to: assisting the Issuer in reviewing research reports, strategy in book-building and allocation, pricing and sizing, and investor presentations). The fee to be paid to the Joint Financial Advisors is ₱115.0 million.

### THE JOINT BOOKRUNNERS

#### Roles and Responsibilities

The Joint Global Coordinators and Joint Bookrunners are responsible for the coordination of the various execution workstreams relating to the Offer. The Joint Bookrunners are assisting the Issuer and the Selling Shareholders in the book-building process, which includes marketing and allocation of the Offer to potential investors as described in this Plan of Distribution. None of the activities of the Joint Global Coordinators and Joint Bookrunners themselves have been or will be conducted in the Philippines, or would constitute licensable activities in the Philippines. In the case of the Joint Domestic Lead Underwriters and Joint Bookrunners, the potential investors will be based in the Philippines.

The Trading Participants Offer Shares shall (subject to re-allocation as described below) initially be offered by the Joint Domestic Lead Underwriters and Joint Bookrunners to all of the PSE Trading Participants. The Joint Domestic Lead Underwriters and Joint Bookrunners have undertaken to underwrite the Trading Participants and Retail Offer on a firm commitment basis.

The Joint Domestic Lead Underwriters and Joint Bookrunners and their respective affiliates have engaged in transactions with, and have performed various investment banking, commercial banking and other services for the Issuer’s affiliates and the Selling Shareholders in the past, and may do so for the Issuer, the Selling Shareholders and their respective subsidiaries and affiliates from time to time in the future. However, all services

provided by the Joint Domestic Lead Underwriters and Joint Bookrunners including in connection with the Offer, have been provided as an independent contractor and not as a fiduciary to the Issuer or the Selling Shareholders. The Joint Domestic Lead Underwriters and Joint Bookrunners do not have any right to designate or nominate a member of the Board. The Joint Domestic Lead Underwriters and Joint Bookrunners have no direct relationship with the Issuer in terms of share ownership and, other than as Joint Domestic Lead Underwriters and Joint Bookrunners for the Offer, do not have any material relationship with the Issuer or the Selling Shareholders, subject to the discussion under “*Significant Relationship*” below. The Joint Domestic Lead Underwriters and Joint Bookrunners have no contract or other arrangement with the Issuer by which it may return to the Issuer any unsold Offer Shares.

The Joint Global Coordinators and Joint Bookrunners and their respective affiliates have, from time to time, engaged in, and may in the future engage in, investment banking, financing, private banking, commercial banking or financial consulting activities and other commercial dealings in the ordinary course of business with the Issuer, the Selling Shareholders or their respective affiliates. The Joint Global Coordinators and Joint Bookrunners have received and expect to continue to receive customary fees and commissions for these activities and dealings. In addition, in the ordinary course of business, the Joint Global Coordinators and Joint Bookrunners and their respective affiliates may trade the Issuer’s securities or the securities of the Issuer’s affiliates or derivatives relating to the foregoing securities for its or its affiliates’ own account or for the accounts of customers, and may at any time hold a long or short position in such securities.

The Joint Global Coordinators and Joint Bookrunners and the Joint Domestic Lead Underwriters and Joint Bookrunners will receive underwriting and selling fees from the Issuer of up to 1.25% (inclusive of a discretionary fee of up to 0.25%) of the gross proceeds from the sale of the Offer Shares and will not receive any discounts or commissions. This underwriting and selling fee is exclusive of the amounts to be paid to selling agents by the Issuer such as PSE Trading Participants, where applicable. The estimated underwriting, selling and Trading Participant (“TP”) fees amount to approximately ₱204.6 million, assuming that the Overallotment Option is fully exercised. The estimated underwriting, selling and TP fees amount to approximately ₱189.2 million, assuming that the Overallotment Option is not exercised. See “*Use of Proceeds*” for further details.

#### **Joint Global Coordinator and Joint Bookrunners**

Merrill Lynch (Singapore) Pte. Ltd. is a wholly owned subsidiary of Bank of America Corporation and incorporated under the laws of Singapore. Bank of America Corporation and its affiliates comprise a full service securities firm and commercial bank engaged in securities, commodities and derivatives trading, foreign exchange and other brokerage activities, and principal investing as well as providing investment, corporate and private banking, asset and investment management, financing and strategic advisory services and other commercial services and products.

UBS AG provides financial advice and solutions to wealthy, institutional and corporate clients worldwide, as well as private clients in Switzerland. UBS AG is the largest truly global wealth manager, and a leading personal and corporate bank in Switzerland, with a large-scale and diversified global asset manager and a focused investment bank. The bank focuses on businesses that have a strong competitive position in their targeted markets, are capital efficient, and have an attractive long-term structural growth or profitability outlook. Headquartered in Zurich, Switzerland, UBS AG has offices in over 50 regions and locations, including all major financial centers, and employs over 73,000 people around the world. UBS Group AG is the holding company of the UBS Group. Under Swiss company law, UBS Group AG is organized as an Aktiengesellschaft, a corporation that has issued shares of common stock to investors.

#### **Joint Domestic Lead Underwriters and Joint Bookrunners**

BDO Capital is the wholly owned investment banking subsidiary of BDO Unibank, Inc., which, in turn, is an associate of the SM Group. BDO Capital is a full-service investment house primarily involved in securities underwriting and trading, loan syndication, financial advisory, private placement of debt and equity, project finance, and direct equity investment. Incorporated in December 1998, BDO Capital commenced operations in March 1999. It obtained its license to operate as an investment house in 1998 and is licensed by the Philippine SEC to engage in underwriting and distribution of securities to the public. As of December 31, 2020, it had ₱4.40 billion and ₱4.10 billion in assets and capital, respectively. It has an authorized capital stock of ₱1.10 billion, of which approximately ₱1.00 billion represents its paid-up capital.

BPI Capital offers investment banking services in the areas of financial advisory, mergers and acquisitions, debt and equity underwriting, private placements, project finance and loan syndication. Founded in December 1994, BPI Capital Corporation is duly licensed by the Philippine SEC to engage in the underwriting and distribution of securities. As of June 30, 2021, BPI Capital Corporation had total assets of ₱4.24 billion and its capital base amounted to ₱4.07 billion. It has an authorized capital stock of ₱1.0 billion of which approximately ₱506.4 million represents its paid-up capital. The firm operates as a wholly owned subsidiary of the Bank of the Philippine Islands.

PNB Capital, a wholly owned subsidiary of the Philippine National Bank, offers a spectrum of investment banking services including loan syndications and project finance, bond offerings, private placements, public offering of shares, securitization, financial advisory and mergers & acquisitions. PNB Capital obtained its license from the Philippine SEC to operate as an investment house in 1997 and is licensed to engage in underwriting and distribution of securities to the public. As of December 31, 2020, PNB Capital has total assets of ₱2.43 billion and capital of ₱2.16 billion. It has an authorized capital stock of ₱2.00 billion, of which ₱1.50 billion represents its paid-up capital.

### **Significant Relationship**

Other than Mr. Henry T. Sy, Jr. being related to BDO Capital's Chairperson, Ms. Teresita T. Sy, by second degree of consanguinity, there is no other relationship between the SGP or any of the Joint Bookrunners.

### **THE TRADING PARTICIPANTS AND RETAIL OFFER**

The Trading Participants and Retail Offer Shares shall (subject to re-allocation as described below) initially be offered in the Philippines by the Joint Domestic Lead Underwriters and Joint Bookrunners, to all of the PSE Trading Participants and LSIs. Each PSE Trading Participant shall initially be allocated 1,685,600 Trading Participants Offer Shares and subject to reallocation as may be determined by the Joint Domestic Lead Underwriters and Joint Bookrunners. In addition, 52,675,000 Firm Shares (or 5% of the Firm Shares), shall be made available to the LSIs. There will be no discount on the Offer Price. The Retail Offer Shares shall be made available nationwide to the LSIs through PSE EASy.

Upon closing of the Trading Participants and Retail Offer, any allocation of Trading Participants and Retail Offer Shares not taken up by the PSE Trading Participants and LSIs shall be distributed by each of the Joint Domestic Lead Underwriters and Joint Bookrunners to its clients or the general public in the Philippines or as otherwise agreed with the Joint Global Coordinators and Joint Bookrunners. The Joint Domestic Lead Underwriters and Joint Bookrunners shall purchase the Trading Participants and Retail Offer Shares not reallocated to the Institutional Offer, or otherwise not taken up by the PSE Trading Participants, LSIs, clients of the Joint Domestic Lead Underwriters and Joint Bookrunners or the general public in the Philippines, pursuant to the terms and conditions of the Domestic Underwriting Agreement (as defined below). Nothing herein or in the Domestic Underwriting Agreement shall limit the rights of each of the Joint Domestic Lead Underwriters and Joint Bookrunners from purchasing the Offer Shares for its own account.

To facilitate the Trading Participants and Retail Offer, the Issuer has appointed BDO Capital, BPI Capital and PNB Capital to act as the Joint Domestic Lead Underwriters and Joint Bookrunners.

On or before 12:00 p.m. on November 2, 2021, the PSE Trading Participants shall submit to the Domestic Receiving Agent their respective Application and other required documents therein from the Trading Participants Offer Shares. For more details on the Procedure for Application for the Offer, please refer to the Procedures and Implementing Guidelines for Trading Participants for the Follow-On Offering of Synergy Grid & Development Phils., Inc.

PSE Trading Participants who take up Trading Participants Offer Shares shall be entitled to a selling fee of 1.0%, inclusive of VAT, of the Trading Participants Offer Shares taken up and purchased by the relevant PSE Trading Participant. The selling fee, less the applicable withholding tax, will be paid by the Issuer through the Domestic Receiving Agent to the PSE Trading Participants starting on the 10<sup>th</sup> banking day from the Listing Date.

All of the Trading Participants and Retail Offer Shares are or shall be lodged with the PDTC and shall be issued to the PSE Trading Participants in scripless form. Investors may maintain the Trading Participants and Retail Offer Shares in scripless form or opt to have the stock certificates issued to them by requesting an upliftment of the relevant Trading Participants and Retail Offer Shares from the PDTC's electronic system after the Listing Date. Costs or fees relating to such upliftment shall be for the account of the investor.

## LSI Subscription through PSE EASy

A total of 52,675,000 Firm Shares (or 5% of the Firm Shares), shall be made available nationwide to LSIs through the PSE Electronic Allocation System or “PSE EASy”. The system will generate a reference number and payment instruction. The Application to subscribe must be settled within the Offer Period.

An LSI is defined as a subscriber to a share offer who is willing to subscribe to a minimum board lot or whose subscription does not exceed ₱100,000.00 or such higher amount as may be approved by the PSE and the Philippine SEC. In the case of this Offer, the minimum subscription of LSIs shall be 500 Firm Shares or ₱6,000.00, while the maximum subscription shall be 83,300 Firm Shares or up to ₱999,600.00. There will be no discount on the Offer Price. The procedure in subscribing to Offer Shares via PSE EASy is indicated in the Company’s Implementing Guidelines for Local Small Investors to be announced through the PSE EDGE website. Should the total demand for the Offer Shares in the LSI program exceed the maximum allocation, the Joint Domestic Lead Underwriters and Joint Bookrunners shall prioritize the subscriptions of LSIs with amounts lower than the maximum subscription.

## THE INSTITUTIONAL OFFER

The Institutional Offer Shares will be offered for sale (i) outside the United States by the Joint Global Coordinators and Joint Bookrunners in offshore transactions in reliance on Regulation S under the U.S. Securities Act, and (ii) to certain qualified buyers and other investors in the Philippines by the Joint Domestic Lead Underwriters and Joint Bookrunners.

Investors in the Institutional Offer (but not the Trading Participants and Retail Offer) will be required to pay, in addition to the Offer Price, a brokerage fee of up to 1.0% of the Offer Price.

## REALLOCATION

The allocation of the Offer Shares between the Trading Participants and Retail Offer and the Institutional Offer is subject to further adjustment as may be determined by the Joint Bookrunners. In the event of an under-application in the Institutional Offer and a corresponding over-application in the Trading Participants and Retail Offer, Offer Shares in the Institutional Offer may be reallocated to the Trading Participants and Retail Offer. If there is an under-application in the Trading Participants and Retail Offer and if there is a corresponding over-application in the Institutional Offer, Offer Shares in the Trading Participants and Retail Offer may be reallocated to the Institutional Offer. Unless otherwise agreed by the Joint Bookrunners, the reallocation shall not apply in the event of over-application or under-application in both the Trading Participants and Retail Offer and the Institutional Offer.

## UNDERWRITING COMMITMENTS

The Issuer and the Joint Domestic Lead Underwriters and Joint Bookrunners have entered into a Domestic Underwriting Agreement to be dated on or about October 22, 2021 (the “**Domestic Underwriting Agreement**”), whereby the Joint Domestic Lead Underwriters and Joint Bookrunners agree to underwrite on a firm commitment basis the number of Offer Shares opposite its name indicated in the following table. The Trading Participant Offer Shares sold by the Joint Domestic Lead Underwriters and Joint Bookrunners as part of the Offer Shares are subject to agreement among the Joint Bookrunners on any clawback, clawforward or other such mechanism relating to the reallocation of the Offer Shares between the Institutional Offer and the Trading Participants and Retail Offer.

	Number of Offer Shares	% of Firm Shares	Estimated Fees <sup>(1)</sup> (in ₱)
BDO Capital & Investment Corporation.....	105,350,000	10%	13,593,548.39
BPI Capital Corporation.....	105,350,000	10%	13,593,548.39
PNB Capital and Investment Corporation.....	105,350,000	10%	13,593,548.39
<b>Total</b> .....	316,050,000	30%	40,780,645.16

*Note:*

- (1) The estimated fees of the Joint Domestic Lead Underwriters and Joint Bookrunners are based on the price of the Offer Shares and are subject to agreement among the Joint Bookrunners on any clawback, clawforward or other such mechanism. The estimated fees are free and clear of any and all withholding taxes and Gross Receipt Tax (GRT) (other than Creditable Withholding Tax and GRT on passed-on GRT which shall be for the account of the relevant Joint Domestic Lead Underwriter and Joint Bookrunner).

Under the terms and conditions of the international purchase agreement to be dated on or about October 22, 2021 (the “**International Purchase Agreement**”), entered into among the Issuer and the Joint Global Coordinators and Joint Bookrunners, the Joint Global Coordinators and Joint Bookrunners have agreed to procure purchasers for or failing which to purchase the number of Offer Shares opposite its name indicated in the following tables, subject to agreement among the Joint Bookrunners on any clawback, clawforward or other such mechanism relating to reallocation of the Offer Shares between the Institutional Offer and the Trading Participants and Retail Offer.

	Number of Offer Shares <sup>(1)</sup>	% of Firm Shares
Merrill Lynch (Singapore) Pte. Ltd. ....	368,725,000	35.00%
UBS AG Singapore Branch.....	368,725,000	35.00%
<b>Total</b> .....	<b>737,450,000</b>	<b>70.00%</b>

Note:

(1) The estimated underwriting commitments of the Joint Global Coordinators and Joint Bookrunners are based on the price of the Offer Shares and are subject to agreement among the Joint Bookrunners on any clawback, clawforward or other such mechanism.

The foregoing tables do not reflect the exercise of the Overallotment Option that may or may not be exercised by the Stabilizing Agent to purchase up to 101,000,000 Option Shares.

## THE OVERALLOTMENT OPTION

In connection with the Offer, subject to the approval of the Philippine SEC, the Selling Shareholders have granted the Stabilizing Agent an Overallotment Option, exercisable in whole or in part to purchase up to 101,000,000 Option Shares at the Offer Price and on the same terms and conditions as the Firm Shares, as set forth herein, from time to time for a period which shall not exceed 30 calendar days from and including the Listing Date. In connection therewith, the Selling Shareholders have entered into a Greenshoe Agreement with the Stabilizing Agent to, among other things, utilize up to 101,000,000 Option Shares to cover over-allocations under the Institutional Offer. The Option Shares may be over-allotted and the Stabilizing Agent may affect price stabilization transactions for a period beginning on or after the Listing Date, but extending no later than 30 days from and including the Listing Date.

Any Common Shares that may be delivered to the Stabilizing Agent under the Greenshoe Agreement will be re-delivered to the Selling Shareholders either through the purchase of Common Shares in the open market by the Stabilizing Agent in the conduct of stabilization activities or through the exercise of the Overallotment Option by the Stabilizing Agent. The Stabilizing Agent may purchase Common Shares in the open market only if the market price of the Common Shares falls below the Offer Price. The initial stabilization action shall be at a price below the Offer Price. After the initial stabilization action, (i) if there has not been an independent trade (i.e., a trade made by a person other than the Stabilizing Agent for itself or on behalf of its clients) in the market at a higher price than the initial stabilization trade, the subsequent trade shall be below the initial stabilization price, or (ii) if there has been an independent trade in the market at a higher price than the initial stabilization trade, the subsequent trade shall be at the lower of the stabilizing action price or the independent trade price. Such activities may stabilize, maintain or otherwise affect the market price of the Common Shares, which may have the effect of preventing a decline in the market price of the Common Shares and may also cause the price of the Common Shares to be higher than the price that otherwise would exist in the open market in the absence of these transactions. If the Stabilizing Agent commences any of these transactions (which would include thereafter disposing of or selling the Common Shares purchased), it may discontinue them at any time. However, the Stabilizing Agent or any person acting on behalf of the Stabilizing Agent has the sole discretion whether to undertake stabilization activities, and there is no assurance that the same will be undertaken. There is also no assurance that the price of the Common Shares will not decline significantly after any such stabilizing activities end.

Once the Overallotment Option has been fully exercised by the Stabilizing Agent, it will no longer be allowed to purchase Common Shares in the open market for the conduct of stabilization activities. As discussed under the section “*Dilution*”, if the Overallotment Option is fully exercised, the number of shares held by new investors will be 1,154,500,000 Common Shares and the public float will increase to 21.92%. The partial or full exercise of the Overallotment Option will not trigger the issuance of any new Common Shares to the Selling Shareholders to offset the Common Shares sold under the Overallotment Option. To the extent the Overallotment Option is not fully exercised by the Stabilizing Agent, the same shall be deemed cancelled and the relevant Option Shares shall be re-delivered to the Selling Shareholders, and the corresponding filing fee for the Overallotment Option shall be forfeited.

## **INDEMNITY**

The International Purchase Agreement provides that the Issuer will indemnify the Joint Global Coordinators and Joint Bookrunners against certain liabilities, including under the Securities Act. The Domestic Underwriting Agreement provides that the Issuer will indemnify the Joint Domestic Lead Underwriters and Joint Bookrunners against certain liabilities, including under the SRC.

## **LOCK UP**

SGP and the Selling Shareholders have agreed with the Joint Global Coordinators and Joint Bookrunners and the Joint Domestic Lead Underwriters and Joint Bookrunners that except in connection with the issuance of the Offer Shares and the exercise of the Over-allotment Option, none of SGP, the Selling Shareholders, any of SGP's or the Selling Shareholders' Affiliates, or any person acting on their behalf will, from the date hereof and for a period of 180 days after the Listing Date, without the prior written consent of the Joint Global Coordinators and Joint Bookrunners and the Joint Domestic Lead Underwriters and Joint Bookrunners, issue, offer, sell, contract to sell, pledge, charge, grant options over or otherwise dispose of, directly or indirectly, any securities of SGP (including any Common Shares) (or publicly announce any such issuance, offer, sale or disposal of (or intention to do any of the foregoing)) or enter into a transaction which would have the same effect (or publicly announce the entry (or intention to enter) into any such transaction), or enter into any swap, hedge or other arrangement (or publicly announce the entry in (or intention to enter into) any such swap, hedge or other arrangement) that transfers in whole or in part, any of the economic consequences of ownership of such securities, whether any such aforementioned transaction is to be settled by delivery of such securities or securities convertible or exchangeable into or exercisable for Common Shares or other securities, or warrants or other rights to purchase Common Shares or other securities, or any security or financial product whose value is determined directly or indirectly by reference to the price of the underlying securities, including equity swaps, forward sales and options, except for transfers or issuances as may be required by applicable law or by any competent authority (including for the qualification of a new director of SGP). For the avoidance of doubt, this contractual lock up would not prevent the issuance of the non-voting preferred shares by NGCP.

## **REGISTRATION OF FOREIGN INVESTMENTS**

The BSP requires that investments in shares of stock funded by inward remittance of foreign currency be registered with the BSP if the foreign exchange needed to service capital repatriation or dividend remittance will be sourced from the Philippine banking system. Upon registration of the investment, proceeds of divestments, or dividends of registered investments are repatriable or remittable immediately and in full through the Philippine banking system, net of applicable tax, without need of BSP approval. The registration with the BSP of all foreign investments in the Offer Shares shall be the responsibility of the foreign investor. See "*Regulatory and Environmental Matters—Foreign Investment Laws and Restrictions—Registration of Foreign Investments and Exchange Controls*".

## **SELLING RESTRICTIONS**

### **Philippines**

No securities, except of a class exempt under Section 9 of the SRC or unless sold in any transaction exempt under Section 10 thereof, shall be sold or distributed by any person within the Philippines, unless such securities shall have been registered with the Philippine SEC on Form 12-1 and the registration statement has been declared effective by the Philippine SEC.

### ***Cross-Ownership Restrictions***

Under the Franchise, NGCP or any of its stockholders, directors or officers (or any of their relatives within the fourth civil degree of consanguinity and their respective spouses) are not allowed to hold any shares of stock in any Power Industry Player. In addition, a Power Industry Player or its stockholders, directors or officers (or any of their relatives within the fourth civil degree of consanguinity and their respective spouses), are not allowed to hold any shares of stock in NGCP.

The cross-ownership prohibition shall not apply to a relative by blood or marriage, if such relative of any stockholder, director or officer of NGCP has no employment, consultancy, fiduciary, contractual, commercial or other economic relationship or interest in NGCP, or conversely, if such relative of any stockholder, director or

officer of a Power Industry Player has no employment, consultancy, fiduciary, contractual, commercial or other economic relationship or interest in the Power Industry Player.

Moreover, as long as SGP is listed on the PSE and owns shares of, or controls, NGCP, ownership of shares in SGP is subject to the Cross-Ownership Rule which provides that: (i) a Power Industry Player or its stockholders, directors or officers, or any of their relatives within the fourth civil degree of consanguinity (except if such relative, whether by blood or marriage, has no employment, consultancy, fiduciary, contractual, commercial or other economic relationship or interest in such Power Industry Player) and their respective spouses, shall not be allowed to own more than 1% of the total outstanding shares of SGP, provided, however, that a stockholder of a PSE-listed Power Industry Player owning not more than 1% of the total outstanding shares of the same Power Industry Player shall not be subject to the foregoing restriction; and (ii) a stockholder of SGP shall not own more than 1% of the shares of stock or equity interest in any Power Industry Player.

For purposes of the foregoing, a “**Power Industry Player**” means a generation company, distribution utility, or its respective subsidiary or affiliate, or other entity engaged in generating and supplying electricity specified by the ERC. An “affiliate” means any person which, alone or together with any other person, directly or indirectly, through one (1) or more intermediaries, controls, is controlled by, or is under common control, with another person. As used herein, “control” shall mean the power to direct or cause the direction of the management policies of a person by contract, agency or otherwise.

SGP has amended its Articles of Incorporation to include a provision that any issuance or transfer of shares of SGP in violation of the foregoing restrictions shall be void, and no shares of stock of SGP issued or acquired in violation of such restrictions shall be recorded (or allowed to remain recorded) in the books of SGP, or allowed to vote or be entitled to representation at any stockholders’ meeting of the SGP, nor shall the holder of such shares of SGP be entitled to any of the rights of a stockholder of SGP, including the right to dividends, during the existence of such violation. SGP’s amended Articles of Incorporation containing the cross-ownership provision was submitted to the Philippine SEC for approval on September 28, 2021 and the Philippine SEC approved the amendment on October 6, 2021.

Any shares of stock issued or acquired in violation of the cross-ownership restriction shall not be allowed to vote or be entitled to representation at any stockholders’ meeting of NGCP nor shall the holder of such shares be entitled to any of the rights of a stockholder of NGCP, including the right to dividends.

An investor purchasing the Offer Shares represents and warrants that it is compliant with the Cross-Ownership Rule under the Franchise and SGP’s Articles of Incorporation.

## LEGAL MATTERS

Certain legal matters as to Philippine law relating to the Offer will be passed upon by SyCip Salazar Hernandez & Gatmaitan, (“**SyCip Law**”) legal counsel to the Issuer and the Selling Shareholders, and Picazo Buyco Tan Fider & Santos, (“**Picazo Law**”) legal counsel to the Joint Global Coordinators and Joint Bookrunners and the Joint Domestic Lead Underwriters and Joint Bookrunners. Certain legal matters as to United States federal law will be passed upon by Latham & Watkins LLP, legal counsel to the Issuer and the Selling Shareholders, and Milbank LLP, legal counsel to the Joint Global Coordinators and Joint Bookrunners and the Joint Domestic Lead Underwriters and Joint Bookrunners.

Each of the foregoing legal counsel has neither shareholdings nor any right, whether legally enforceable or not, to nominate persons or to subscribe for our securities. None of the legal counsel will receive any direct or indirect interest in any of our securities (including options, warrants or rights thereto) pursuant to or in connection with the Offer.

## INDEPENDENT AUDITORS

The financial statements of SGP as of and for the six months ended June 30, 2021 and as of December 31, 2020, 2019, 2018 and 2017 for the years then ended, were audited by RGM, independent auditors, in accordance with Philippine Standards on Auditing, as stated in their report attached to this Prospectus.

RGM has acted as the Issuer's external auditor since 2010. Vernilo G. Yu is the current audit partner and has served as such since 2016. The Group has not had any material disagreements on accounting and financial disclosures with its external auditor for the same periods or any subsequent interim period.

The stockholders approve the appointment of the external auditors of the Issuer. The Audit Committee reviews the audit scope and coverage, strategy and results for the approval of the Board of Directors and ensures that audit services rendered shall not impair the independence of the external auditors or violate Philippine SEC regulations. Likewise, the Audit Committee evaluates and determines any non-audit work performed by external auditors, including the fees therefor, and ensures that such work will not conflict with External Auditors' duties as such or threaten its independence. RGM has neither shareholdings in the Issuer nor any right, whether legally enforceable or not, to nominate persons or to subscribe for our securities. RGM will not receive any direct or indirect interest in the Issuer or its securities (including options, warrants or rights thereto) pursuant to or in connection with the Offer. The foregoing is in accordance with the Code of Ethics for Professional Accountants in the Philippines set by the Board of Accountancy and approved by the Professional Regulation Commission.

The following table sets out the aggregate fees paid to RGM for professional services rendered by RGM, excluding out-of-pocket expenses incidental to such services:

	<u>2020</u>	<u>2019</u>	<u>2018</u>
Audit and Audit Related Fees (in ₱) <sup>(1)</sup> .....	231,000	220,000	200,000

*Note:*

*(1) Audit and audit related fees include fees for the audit of annual financial statements and services that are normally provided by the independent auditor in connection with statutory and regulatory filings.*

In connection with the preparation of the Group's consolidated audited financial statements as of December 31, 2020 and 2019 and for the years ended December 31, 2020, 2019 and 2018, and as of and for the years ended December 31, 2018 and 2017 and the consolidated interim financial statements as of and for the six months ended June 30, 2021 and 2020 for the purposes of this Offer, fees paid to RGM amounted to ₱2.4 million.

There were no other fees paid to the independent auditors other than the audit and audit related fees above.

### Changes in and Disagreements with Accountants

The Issuer has not had any changes in or disagreements with its independent accountants/auditors on any matter relating to financial or accounting disclosures.

### No interest in the Issuer

There is no arrangement that experts will receive a direct or indirect interest in the Issuer or was a promoter, underwriter, voting trustee, director, officer, or employee of the Issuer.

Any future non-audit/ other services to be provided by the external auditors shall undergo review and is subject to the endorsement of the Issuer' Audit Committee before such engagement is approved by the Board of Directors.

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R.G. Manabat & Co.  
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Telephone +63 (2) 8885 7000  
Fax +63 (2) 8894 1985  
Internet www.home.kpmg/ph  
Email ph-inquiry@kpmg.com

## REPORT OF INDEPENDENT AUDITORS

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

### *Opinion*

We have audited the consolidated interim financial statements of Synergy Grid & Development Phils., Inc. and Subsidiaries (the "Group"), which comprise the consolidated interim statements of financial position as at June 30, 2021 and December 31, 2020, and the consolidated interim statements of income, consolidated interim statements of changes in equity and consolidated interim statements of cash flows for the six months ended June 30, 2021 and 2020, and notes, comprising significant accounting policies and other explanatory information.

In our opinion, the accompanying consolidated interim financial statements present fairly, in all material respects, the consolidated interim financial position of the Group as at June 30, 2021 and December 31, 2020, and its consolidated interim financial performance and its consolidated interim cash flows for the six months ended June 30, 2021 and 2020 in accordance with Philippine Financial Reporting Standards (PFRS).

### *Basis for Opinion*

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

Firm Regulatory Registration & Accreditation:  
PRC-BOA Registration No. 0003, valid until November 21, 2023  
SEC Accreditation No. 0003-SEC, Group A, valid for five (5) years covering the audit of 2020 to 2024  
financial statements (2019 financial statements are covered by SEC Accreditation No. 0004-FR-5)  
IC Accreditation No. 0003-IC, Group A, valid for five (5) years covering the audit of 2020 to 2024  
financial statements (2019 financial statements are covered by IC Circular Letter (CL) No. 2019-39, Transition clause)  
BSP Accreditation No. 0003-BSP, Group A, valid for five (5) years covering the audit of 2020 to 2024  
financial statements (2019 financial statements are covered by BSP Monetary Board Resolution No. 2161, Transition clause)



### *Emphasis of Matter*

We draw attention to Notes 2 and 6 to the consolidated interim financial statements which discussed that the Group issues these consolidated interim financial statements as at June 30, 2021 and December 31, 2020 to reflect the Share Swap Transaction which is considered to be a business combination of entities under common control and accounted for retrospectively using the pooling of interests method with the consolidated interim financial statements as at June 30, 2021 and December 31, 2020 and for the six months ended June 30, 2021 and 2020 being restated as if the entities had always been combined for the periods that the entities were under common control. Our opinion is not modified in respect of this matter. These consolidated interim financial statements were prepared by the Group to comply with the registration requirements of the Securities and Exchange Commission for the Group's planned follow-on offering of its shares.

### *Key Audit Matters*

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

#### *Accounting for the additions to Intangible Assets*

Refer to Note 8 to the consolidated interim financial statements for the disclosure regarding the Group's Intangible Assets.

#### *The Risk*

The Group has Intangible assets amounting to P281.84 billion as at June 30, 2021 which mainly consists of assets related to the transmission projects pursuant to the Concession Agreement entered into by the Group with PSALM and TRANSCO. The accounting for intangible assets involves significant management judgement particularly in the determination of the completeness and appropriateness of the costs recognized related to approved capital expenditures, assessment of work completion and allocation of related costs that need to be capitalized in accordance with IFRIC 12, Service Concession Arrangements. Moreover, due to the materiality of intangible asset in the consolidated financial statements, it is deemed as one of our key audit matters.

#### *Our Response*

Our audit procedures included:

- We assessed the operating effectiveness of key controls in respect to the appropriateness of completeness of the costs recognized related to approved capital expenditures;
- We assessed whether the Group's capitalization of intangible asset is in accordance with IFRIC12 by obtaining and reviewing sample construction contracts;
- We performed cut-off testing to check whether transactions were recorded in the appropriate accounting period by checking the transactions subsequent to year end within the relevant period and verifying contracts, work status and other relevant documentation on a sample basis; and
- We have also evaluated the appropriateness and adequacy of the presentation and the relevant disclosures in the consolidated financial statements.



#### *Valuation of Goodwill*

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

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

#### *Our Response*

Our procedures included:

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

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

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

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

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

#### *Auditors' Responsibilities for the Audit of the Consolidated Interim Financial Statements*

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



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

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

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

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



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

The engagement partner on the audit resulting in this independent auditors' report is Vernilo G. Yu.

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

A handwritten signature in black ink, appearing to be 'Vernilo G. Yu', written over a horizontal line.

VERNILO G. YU

Partner

CPA License No. 108798

SEC Accreditation No. 1815-A, Group A, valid until August 20, 2023

Tax Identification No. 225-454-652

BIR Accreditation No. 08-001987-035-2021

Issued June 29, 2021; valid until June 28, 2024

PTR No. MKT 8533924

Issued January 4, 2021 at Makati City

August 11, 2021

Makati City, Metro Manila

SYNERGY GRID & DEVELOPMENT PHILS., INC.  
(formerly UEM Development Phils., Inc.)

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

STATEMENT OF MANAGEMENT'S RESPONSIBILITY  
FOR FINANCIAL STATEMENTS

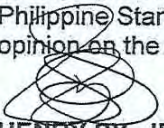
The management of Synergy Grid & Development Phils, Inc and Subsidiaries (the "Group"), is responsible for the preparation and fair presentation of the consolidated interim financial statements including the schedule attached therein, as at June 30, 2021 and December 31, 2020 and for the six months ended June 30, 2021 and 2020, in accordance with the prescribed financial reporting framework indicated therein, and for such internal control as management determines is necessary to enable the preparation of consolidated interim financial statements that are free from material misstatement, whether due to fraud or error.

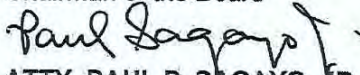
In preparing the consolidated interim financial statements, management is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate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

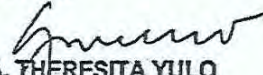
The Board of Directors is responsible for overseeing the Group's financial reporting process.

The Board of Directors reviews and approves the consolidated interim financial statements including the schedule attached therein and submits the same to the Stockholders.

R.G. Manabat & Co., the independent auditors appointed by the Stockholders, has audited the consolidated interim financial statements of the Group in accordance with Philippine Standards on Auditing, and in its report to the Stockholders, has expressed its opinion on the fairness of presentation upon completion of such audits.


  
HENRY SY, JR.  
Chairman of the Board

  
ATTY. PAUL P. SAGAYO, JR.  
President

  
MA. THERESITA YULO  
Treasurer /Comptroller

Signed this 11<sup>th</sup> day of August 2021

Doc. No. 87 ;  
Page No. 19 ;  
Book No. VIII ;  
Series of 2021.

  
IAN DENIS UCANOY  
Notary Public for the Cities of Pasig, San Juan  
And Municipality of Pateros  
Commission until 31 December 2021  
\*as extended under Supreme Court B.M. no. 3795  
2801 Discovery Center 25 ADB Ave., Ortigas Center Pasig City  
APPT. No. 143 (2019-2020) Roll No. 70912  
PTR No. 6514961 01-13-2021, Pasig City  
IBP No. 135440 12-27-2020, RSM  
MCLE Compliance No. VI-025508 04-15-2019

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

	<b>Note</b>	<b>June 30, 2021 (As restated - Note 6)</b>	December 31, 2020 (As restated - Note 6)
<b>ASSETS</b>			
<b>Noncurrent Assets</b>			
Intangible asset - net	5, 8, 27	<b>P281,837,143,093</b>	P267,754,728,000
Goodwill	9	<b>10,471,611,069</b>	10,471,611,069
Property and equipment - net	10	<b>3,968,008,593</b>	3,974,895,999
Receivables - net of current portion	12, 24	<b>70,881,641</b>	102,613,858
Other noncurrent assets		<b>139,705,869</b>	146,516,598
<b>Total Noncurrent Assets</b>		<b>296,487,350,265</b>	282,450,365,524
<b>Current Assets</b>			
Cash and cash equivalents	11, 24	<b>9,816,914,552</b>	14,081,184,458
Receivables - net	12, 24	<b>14,722,287,908</b>	13,577,647,415
Prepaid expenses and other current assets	13	<b>26,759,012,637</b>	34,502,973,308
<b>Total Current Assets</b>		<b>51,298,215,097</b>	62,161,805,181
		<b>P347,785,565,362</b>	P344,612,170,705
<b>LIABILITIES AND EQUITY</b>			
<b>Noncurrent Liabilities</b>			
Loans payable - net of current portion	14, 24	<b>P126,484,587,934</b>	P122,503,864,258
Retirement benefits liability	23	<b>1,885,976,867</b>	2,027,098,489
Customers' and other deposits	24	<b>396,191,965</b>	400,865,396
Concession fee payable	5, 24	<b>54,319,128,352</b>	54,319,128,352
Other noncurrent liabilities	16, 24	<b>1,589,954,723</b>	1,767,715,209
<b>Total Noncurrent Liabilities</b>		<b>184,675,839,841</b>	181,018,671,704
<b>Current Liabilities</b>			
Trade and other current payables	15, 24, 25	<b>39,762,642,047</b>	50,931,389,510
Current portion of loans payable	14, 24	<b>14,721,169,312</b>	13,181,457,762
Other current liabilities	16, 24	<b>10,655,991,329</b>	9,830,910,394
<b>Total Current Liabilities</b>		<b>65,139,802,688</b>	73,943,757,666
<b>Total Liabilities</b>		<b>249,815,642,529</b>	254,962,429,370
<b>Equity</b>			
Capital stock	17	<b>4,149,866,000</b>	4,149,866,000
Additional paid-in capital	6	<b>77,700,937,730</b>	77,907,600,000
Remeasurement losses on defined benefit liability	23	<b>(60,413,315)</b>	(151,970,509)
Equity adjustments from common control transactions		<b>(73,359,171,000)</b>	(73,359,171,000)
Retained earnings	17	<b>60,696,929,834</b>	55,684,873,796
<b>Equity Attributable to Equity Holders of the Parent Company</b>		<b>69,128,149,249</b>	64,231,198,287
<b>Non-controlling interests</b>	7	<b>28,841,773,584</b>	25,418,543,048
<b>Total Equity</b>		<b>97,969,922,833</b>	89,649,741,335
		<b>P347,785,565,362</b>	P344,612,170,705

See Notes to the Consolidated Interim Financial Statements.

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

For the Six Months Ended June 30

	Note	2021 (As restated - Note 6)	2020 (As restated - Note 6)
<b>OPERATION SERVICES REVENUES - Net</b>	20	<b>P24,186,188,628</b>	P24,183,112,007
<b>EXPENSES</b>			
Amortization of intangible asset	8	4,407,276,749	4,155,290,391
Salaries, wages and employee benefits	21, 23	2,156,190,221	2,055,108,848
Repairs and maintenance		455,327,206	416,015,977
Depreciation	3, 10	304,075,843	341,723,774
Insurance		247,108,989	208,715,941
Security and janitorial		241,395,785	230,688,205
Supervision and regulatory fees		234,216,875	234,216,875
Communication, light and water		208,076,247	204,279,761
Supplies and tools		139,838,246	78,426,068
Public relation and corporate social responsibility		96,118,728	153,247,761
Transportation and travel		92,661,796	75,729,521
Representation and entertainment		70,824,347	81,926,192
Fuel and oil		53,695,632	48,561,521
Rent	3, 22	44,299,875	41,192,920
Taxes and licenses		35,979,390	38,914,274
Outside services		35,963,986	92,238,653
Provision for impairment losses on receivables	12	32,335,000	32,335,000
Professional fees		29,403,362	36,288,930
Advertising		8,634,037	7,429,653
Director's fee	21	7,500,000	7,500,000
Meetings and conferences		7,438,447	8,316,647
Charitable contributions		1,668,327	632,774
Filing fees		1,200,077	1,225,587
Donation for COVID19 Preventive Drive		-	1,000,000,000
Miscellaneous		4,180,046	4,254,481
		<b>8,915,409,211</b>	9,554,259,754
<b>INCOME FROM OPERATIONS</b>		<b>15,270,779,417</b>	14,628,852,253
<b>OTHER CHARGES - Net</b>			
Interest expense	3, 5, 14	(3,055,774,809)	(3,468,841,510)
Foreign exchange gain - net	24	112,590,824	141,254,613
Bank and finance charges	14	(103,641,785)	(98,584,665)
Interest income	11	31,805,532	148,502,325
Miscellaneous income		243,503,273	30,349,493
		<b>(2,771,516,965)</b>	(3,247,319,744)
<b>CONSTRUCTION REVENUE AND COSTS</b>			
Construction revenues		18,489,691,842	18,626,125,035
Construction costs		(18,489,691,842)	(18,626,125,035)
	8	-	-
<b>NET INCOME BEFORE TAX</b>		<b>12,499,262,452</b>	11,381,532,509
<b>INCOME TAX EXPENSE</b>		<b>172,897</b>	528,741
<b>NET INCOME</b>		<b>P12,499,089,555</b>	P11,381,003,768
<b>Attributable to:</b>			
Equity holders of the Parent Company		P5,012,056,038	P4,558,336,966
Non-controlling interests	7	7,487,033,517	6,822,666,802
		<b>P12,499,089,555</b>	P11,381,003,768
<b>BASIC AND DILUTED EARNINGS PER SHARE</b>	18	<b>P1.21</b>	P1.10

See Notes to the Consolidated Interim Financial Statements.

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

For the Six Months Ended June 30			
	<i>Note</i>	2021 (As restated - Note 6)	2020 (As restated - Note 6)
<b>NET INCOME</b>		<b>P12,499,089,555</b>	P11,381,003,768
<b>OTHER COMPREHENSIVE INCOME</b>			
<i>Item that will never be reclassified to profit or loss</i>			
Remeasurement gain on defined benefit liability	23	227,754,213	-
<b>TOTAL COMPREHENSIVE INCOME</b>		<b>P12,726,843,768</b>	P11,381,003,768
<b>Attributable to:</b>			
Equity holders of the Parent Company		P5,103,613,232	P4,558,336,966
Non-controlling interests	7	7,623,230,536	6,822,666,802
		<b>P12,726,843,768</b>	P11,381,003,768

*See Notes to the Consolidated Interim Financial Statements.*

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

	Note	Capital Stock (Note 17)	Additional Paid-in Capital	Equity Re measurement			Retained Earnings	Total	Non-controlling Interests	Total Equity
				Adjustments From Common Control Transactions	Gains (Losses) On Defined Benefit Liability	Losses				
As at January 1, 2021, As Previously Reported		P49,466,000	P -	P -	P -	(P43,710,861)	P5,755,139	P -	P5,755,139	
Share swap transaction	6	4,100,400,000	77,907,600,000	-	-	-	82,008,000,000	-	82,008,000,000	
Effect of common control business combination	6	-	-	(73,359,171,000)	(151,970,509)	55,728,584,657	(17,782,556,852)	25,418,543,048	7,635,986,196	
As at January 1, 2021, As Restated		4,149,866,000	77,907,600,000	(73,359,171,000)	(151,970,509)	55,684,873,796	64,231,198,287	25,418,543,048	89,649,741,335	
<b>Total Comprehensive Income</b>		-	-	-	-	5,012,056,038	5,012,056,038	7,487,033,517	12,499,089,555	
Net income for the period		-	-	-	-	5,012,056,038	5,012,056,038	7,487,033,517	12,499,089,555	
Other comprehensive income:										
Remeasurement gain on defined benefit liability	23	-	-	-	91,557,194	-	91,557,194	136,197,019	227,754,213	
<b>Total Comprehensive Income for the Period</b>		-	-	-	91,557,194	5,012,056,038	5,103,613,232	7,623,230,536	12,726,843,768	
<b>Transactions with Owners of the Group</b>										
Share issuance costs	6	-	(206,662,270)	-	-	-	(206,662,270)	-	(206,662,270)	
Dividends	17	-	-	-	-	-	-	(4,200,000,000)	(4,200,000,000)	
<b>Balance at June 30, 2021</b>		P4,149,866,000	P77,700,937,730	(P73,359,171,000)	(P60,413,315)	P60,696,929,834	P69,128,149,249	P28,841,773,584	P97,969,922,833	

For the Six Months Ended June 30

See Notes to the Consolidated Interim Financial Statements.

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

**For the Six Months Ended June 30**

	Note	Capital Stock (Note 17)	Additional Paid-in Capital	Equity Adjustments From Common Control Transactions	Remeasurement Gains (Losses) On Defined Benefit Liability	Retained Earnings	Total	Non-controlling Interests	Total Equity
As at January 1, 2020, As Previously Reported		P49,466,000	P -	P -	P -	(P41,720,819)	P7,745,181	P -	P7,745,181
Share swap transaction	6	4,100,400,000	77,907,600,000	(73,359,171,000)	(77,626,091)	46,331,789,748	82,008,000,000	-	82,008,000,000
Effect of common control business combination	6	-	-	-	-	(27,105,007,343)	(27,105,007,343)	-	(3,676,859,204)
As at January 1, 2020, As Restated		4,149,866,000	77,907,600,000	(73,359,171,000)	(77,626,091)	46,290,068,929	54,910,737,838	23,428,148,139	78,338,885,977
Total Comprehensive Income		-	-	-	-	4,558,336,966	4,558,336,966	6,822,666,802	11,381,003,768
Net income for the period		-	-	-	-	4,558,336,966	4,558,336,966	6,822,666,802	11,381,003,768
Other comprehensive income:		-	-	-	-	-	-	-	-
Remeasurement loss on defined benefit liability		-	-	-	-	-	-	-	-
Total Comprehensive Income for the period		-	-	-	-	4,558,336,966	4,558,336,966	6,822,666,802	11,381,003,768
Transactions with Owners of the Group	17	-	-	-	-	-	-	(4,160,000,000)	(4,160,000,000)
Dividends		-	-	-	-	-	-	-	-
Balance at June 30, 2020		P4,149,866,000	P77,907,600,000	(P73,359,171,000)	(P77,626,091)	P50,848,405,895	P59,469,074,804	P26,090,814,941	P85,559,889,745

See Notes to the Consolidated Interim Financial Statements.

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

For the Six Months Ended June 30

	<i>Note</i>	2021 (As restated - Note 6)	2020 (As restated - Note 6)
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Net income		P12,499,262,452	P11,381,532,509
Adjustments for:			
Interest expense	5, 11, 14	3,055,774,809	3,468,841,510
Amortization of intangible asset	8	4,407,276,749	4,155,290,391
Depreciation	10	304,075,843	341,723,774
Retirement benefits cost		125,095,312	98,567,076
Provision for impairment losses on receivables		32,335,000	32,335,000
Impairment of creditable withholding tax		899,206	-
Gain on disposal of property and equipment		-	(1,620)
Interest income		(31,805,532)	(148,502,325)
Unrealized foreign exchange gain - net		(275,877,625)	411,617,316
Operating income before working capital changes		20,117,036,214	19,741,403,631
Decrease (increase) in:			
Receivables		(1,115,995,845)	(8,513,276,202)
Prepaid expenses and other current assets		(1,558,688,889)	(537,059,914)
Increase (decrease) in:			
Trade and other current payables		(10,496,751,573)	3,506,124,943
Dividends payable		62,500,000	
Other current liabilities		764,034,869	336,752,999
Customers' and other deposits		(4,673,431)	100,082,588
Other noncurrent liabilities		(161,989,022)	(15,568,150)
Net cash generated from operations		7,605,472,323	14,618,459,895
Interest paid		(3,671,697,818)	(3,402,924,870)
Retirement contribution paid		(58,827,074)	(21,209,288)
Interest received		40,738,978	173,931,290
Income taxes paid		(171,124)	(650)
Net cash provided by operating activities		3,915,515,285	11,368,256,377
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Investment in capital expenditures	8	(9,181,143,953)	(8,959,985,415)
Additions and adjustments to property and equipment		(297,188,436)	(274,813,131)
Decrease in other non-current assets		12,401	260,781
Proceeds from sale of property and equipment		-	1,620
Net cash used in investing activities		(9,478,319,988)	(9,234,536,145)
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
Payment of cash dividends	17	(4,200,000,000)	(4,160,000,000)
Proceeds of loans payable	14	12,000,000,000	9,200,000,000
Payment of loans payable	14	(6,479,564,774)	(5,437,256,386)
Settlement of obligations under lease liabilities		(51,772,762)	(60,673,439)
Advances from shareholders		-	835,019,329
Share issuance cost		(206,662,270)	-
Net cash used in financing activities		1,062,000,194	377,089,504
<b>EFFECTS OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS</b>			
		236,534,603	(181,426,350)
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>			
		(4,264,269,906)	2,329,383,386
<b>CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD</b>			
		14,081,184,458	16,015,412,510
<b>CASH AND CASH EQUIVALENTS AT END OF PERIOD</b>			
	11	P9,816,914,552	P18,344,795,896

See Notes to the Consolidated Interim Financial Statements.

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

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**1. Reporting Entity**

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

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

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

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

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

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

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

On December 20, 2019, the Parent Company and the stockholders of OTHI and P21 entered into a 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.

As at the reporting date of the consolidated interim financial statements, the Parent Company's shareholders are still in the process of securing the Certificate Authorizing Registration with the Bureau of Internal Revenue (BIR) in order to transfer in the name of the Parent Company the following shares:

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

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

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

\* Indirectly owned through OTHI

\*\* Indirectly owned through P21

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

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

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

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

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

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

### 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 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, 2021, the Group, through NGCP, entered into new construction contracts amounting to P5.40 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 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 NLOM
- Implementation Consultancy Services for Substation Projects, Schedule I - San Simon 230KV and Pinili 230KV Substation Projects, Schedule II - Marilao 500KV Substation Project
- Supply of Labor, Tools, Materials, Supplies and Equipment for the Installation of Deluge Water Spray System for the Power Transformer at Various Substation of SLOM
- Foundation Works for Package D: Mindanao - Visayas Interconnection Project - Schedule I (Visayas +20kV Electrode Lines)
- Supply and Delivery of Current Transformer, Combined Instrument Transformer and Voltage Transformer (Batch 1)
- Supply of Labor, Tools, Materials, Supplies and Equipment for the Installation of Deluge Water Spray System for the Power Transformer at Various Substation of VOM
- Cebu-Negros-Panay 230kV Backbone Project - Stage 3, Phase 3 (Quiot and Cebu Substations)
- Supply and Delivery of STACIR Conductor
- OPGW Retrofitting Project: Matanao - Kidapawan 138 kV Line 1
- Supply Service Agreement Ref. No. Tpd-2018-05-1932
- Supply of Labor, Tools, Materials, Supplies and Equipment for the Installation of Deluge Water Spray System For The Power Transformer At Various Substation of MOM

- Supply Service Agreement Ref. No. Tpd-2018-05-1932
- Design, supply, delivery, installation, configuration, testing and commissioning of High Availability (HA) Enterprise and Data Center Core Level Switches For The Primary (2xha Nodes) And The Secondary (1xha Node) Data Centers
- Hauling, Installation, Wiring, Testing and Commissioning of 100 MVA and 50MVA Transformer at Tuguegarao Substation
- Design, Supply, Delivery, Installation, Configuration, Testing, And Commissioning of Five (5) Nodes of Next generation Firewalls In High Availability (HA) Configurations With Central Management System
- San Manuel-Nagsaag 230kv Transmission Line Project (500/230kv Substation Portion)- Supply and Delivery Of Current Transformer
- Parcellary Survey Of Porac 230kV Substation Project (Schedule I), Hermosaporac 230kv T/L (Schedule II), and Porac-Capas 230kV T/L and Clark 230kV T/L Extension (Schedule III)
- Furnishing of Materials, Labor, Equipment and other Incidentals for Construction of Bored Pile Foundation For Tower Nos. 193 and 196 Along San Francisco-Bislig 138 KV Transmission Line
- Parcellary Survey, Schedule I - Taguig 500kV Substation (Transmission Line Component) and Schedule II - Pagbilao - Tayabas 500kV Transmission Line Project
- Supply, Delivery, Installation, Configuration, Testing and Commissioning of Real-Time Cyber Security Operational Visibility Solution For NGCP Visayas BCC In Cebu and Negros Network Security
- 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
- Service Contract for The Engineering Geological and Geotechnical Investigation Of The Proposed Santiago-Nagsaag 500 kV T/L
- Extension of Materials Management Services for Transmission Line Project For Tuy-Dasmariñas 500kv Transmission Line Project (TI Portion)
- Maramag Substation Rehabilitation Project Stage 1 - Schedule Ii (Maramag Substation) Expansion, Modification and Reconfiguration Of Existing Substation Automation System At Maramag Substation
- Service Contract for The Engineering Geological And Geotechnical Investigation Of The Proposed Northern Luzon 230 Kv Loop (Pr No. 10047331)
- Supply and Delivery Of Tools & Equipment
- Design, Manufacture, Delivery, Installation, Assembly, Testing and Commissioning Of Spare Power Transformer, Schedule V - 1x10mva, 69/13.8kv
- Mindanao IP Network Expansion- PE Layer

For 2021, the Capital Expenditures approved by NGCP's BOD on March 19, 2020 amounted to P50.51 billion.

As at December 31, 2020, the Group entered into new construction contracts amounting to P60.88 billion, among the major contracts are as follows:

- Cebu-Bohol Interconnection Project (CBIP) Submarine
- Cebu-Bohol 230kV Interconnection Project - Submarine Cable Portion (Sp20.CBIPSC.Vt-0430)
- Negros-Panay 230kV Interconnection Project, Line 2, Submarine Cable Portion, Sp20.NPIPSC2.Vt-0484
- Mindanao-Visayas Interconnection Project (Umapad GIS Portion) & Lapu-Lapu 230kV Substation Project (GIS Portion), Sp20.MVIP(UMP)&LLSP.Vt-0487
- Manila (Navotas) - Marilao 230kV TransmissionLine Under Manila (Navotas) 230kV Substation Project, Sp20.MMTL.Lt-0456
- Hermosa-San Jose TL

- Binga-Nagsaag (San Manuel) 230kV Transmission Line Project & Ambuklao - Binga 230kV Transmission Line Upgrading Project, Sp20. BNTLP&ABTLUP.Lt-0477
- Abuyog 230kV Substation Project, Sp20.ABUSP.Lt-0464
- Laguindingan 230kV Substation Project, Sp20.LSP.Mt-0488
- CBIP Sched 1
- Cebu - Bohol Interconnection Project (Sp20.CBIPOHTL.Vt-0461) Schedule I - Dumanjug - Argao 230kv Transmission Line
- CNP Stage 3 TL
- Taguig - Baras 500kV Transmission Line (Package B: Laguna Lakeshore Portion) Under Taguig 500kV Substation Project, Sp20.TBETL(TSP).Lt-0455
- Tacurong - Kalamansig 69kV Transmission Line Project (Sp20.TKTLP.Mt-0469) (SCHEDULE I - TKn-01 to TKn-413; SCHEDULE II - TKn-414 to KALAMANSIG S/S)
- NCB S/S
- Nabas-Caticlan-Boracay 138kv Transmission Line Project (Substation Portion), Sp20.NCBTLP(SS).Vt-0450
- Cebu - Bohol Interconnection Project (Sp20.CBIPOHT.Vt-0461) Schedule II - Maribojoc - Corella 230kv Transmission Line
- Panay-Guimaras 138KV Sched 2 s/s
- Amlan-Dumaguete 138kV Transmission Line Project (Substation Portion), Sp20.ADTLP.Vt-0489
- Nagsaag-Tumana
- Typhoon Rolly
- LVIP-3 Stage 2 sched 5
- Schedule III - Negros & Panay Island (Sp20.VSUP2.Vt-0479 (III))
- Schedule II - Cebu & Bohol Region (Sp20.VSUP2.Vt-0479 (II))
- Dumanjug 230kv Substation Expansion Project Under Cebu-Bohol 230kV Interconnection Project & Dumanjug 138/69kV Expansion Project Under Mindanao

For 2020, the Capital Expenditures approved by NGCP's BOD on March 7, 2019 amounted to P49.70 billion.

*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 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. In case compliance with this requirement is not reached, the ERC may, upon application of NGCP, and after notice and hearing, allow such reasonable extension of the period within which NGCP should list its shares of stock, if the market condition is not suitable for such listing (see Note 25). The Share Swap Transaction involving the Parent Company, OTHI and P21 is part of the active steps taken aimed to comply with this requirement.

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

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## **2. Basis of Preparation**

### Statement of Compliance

These consolidated interim 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 Group issues these consolidated interim financial statements as at June 30, 2021 to comply with the requirements of the SEC for the filing of registration statement in relation to the Parent Company's planned 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 interim financial statements as at June 30, 2021 and December 31, 2020 and for the six months ended June 30, 2021 and 2020, being restated as if the entities had always been combined for the periods that the entities were under common control (see Note 6).

The accompanying consolidated interim financial statements were authorized for issue by the BOD on August 10, 2021.

#### Basis of Measurement

The consolidated interim 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 interim 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 interim 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 interim 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 interim 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 interim statements of income and within equity in the consolidated interim statements of financial position, separately from the equity attributable to equity holders of the Parent Company.

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

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

#### Use of Judgments and Estimates

The preparation of the consolidated interim 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 interim 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 interim 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 interim statements of income and consolidated interim statements of changes in equity.

The fair values of the Group's financial instruments are presented in Note 24 to the consolidated interim 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, 2021 and December 31, 2020, 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, 2021 and December 31, 2020 amounted to P3.97 billion (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 for the six months ended June 30, 2021 and 2020. As at June 30, 2021 and December 31, 2020, 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, 2021 and December 31, 2020, the estimated residual value of intangible assets from completed projects at the end of the concession period amounted to P37.08 and P34.14 billion, respectively.

#### *Impairment of Goodwill*

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

No impairment loss was recognized on goodwill for the six months ended June 30, 2021 and 2020. The carrying amount of goodwill amounted to P10.47 billion as at June 30, 2021 and December 31, 2020 (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 for the six months ended June 30, 2021 and 2020 amounted to P125.10 million and P98.57 million, respectively. Retirement benefits liability as at June 30, 2021 and December 31, 2020 amounted to P1.89 billion and P 2.03 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 interim 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, 2021 and December 31, 2020.

#### *Contingencies*

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

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### **3. Summary of Significant Accounting Policies**

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

#### Adoption of Amendments to Standards and Interpretations

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 June 30, 2021; and
- no other substantive changes have been made to the terms of the lease.

The adoption of the amendments did not have a material effect to the consolidated interim 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 interim financial statements. Unless otherwise stated, none of these are expected to have a significant impact on the Group's consolidated interim financial statements.

#### *Effective January 1, 2021*

- *Interest Rate Benchmark Reform - Phase 2 (Amendments to PFRS 9, Financial Instruments, PAS 39, Financial Instruments: Recognition and Measurement, PFRS 7, Financial Instruments: Disclosures, PFRS 4, Insurance Contracts and PFRS 16, Leases)*. The amendments address issues that might affect financial reporting as a result of the reform of an interest rate benchmark, including the effects of changes to contractual cash flows or hedging relationships arising from the replacement of an interest rate benchmark with an alternative benchmark rate. The amendments provide practical relief from certain requirements in PFRS 9, PAS 39, PFRS 17, Insurance Contracts, PFRS 4 and PFRS 16 relating to: changes in the basis for determining contractual cash flows of financial assets, financial liabilities and lease liabilities; and hedge accounting.

#### *Effective January 1, 2022*

- *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.

*Effective January 1, 2023*

- *Classification of Liabilities as Current or Non-current (Amendments to PAS 1, Presentation of Financial Statements)*. To promote consistency in application and clarify the requirements on determining if a liability is current or non-current, the IASB has amended PAS 1, Presentation of Financial Statements and the amendments could have a significant impact on classification of liabilities.
  - Right to defer settlement must have substance;
  - Classification of rollover facilities may change; and
  - Convertible debt may become current.
  
- *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 remain 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 routine in nature are expensed and recognized in the profit or loss as incurred.

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

### Intangible Asset

#### *Service Concession Arrangement*

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

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

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

Subsequent performance of construction and upgrade services, 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 interim 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 interim 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 measured 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 sales activity.

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

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 June 30, 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.

#### Derecognition of Financial Assets and Liabilities

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

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

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

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

#### Offsetting Financial Instruments

Financial assets and financial liabilities are offset and the net amount is reported in the consolidated interim 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 interim 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 interim 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 interim 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 interim 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*

Costs and expenses are recognized upon receipt of goods, utilization of services or at the date they are 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 interim 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 interim 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 interim financial statements. These are disclosed in the notes to the consolidated interim financial statements unless the possibility of an outflow of resources embodying economic benefits is remote. Contingent assets are not recognized in the consolidated interim financial statements but are disclosed in the notes to the consolidated interim financial statements when an inflow of economic benefits is probable.

#### Events After the Reporting Date

As discussed in Note 1, 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 interim financial statements. Post year-end events that are not adjusting events are disclosed in the notes to the consolidated interim financial statements when material.

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## **4. Concession Agreement**

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

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

### Concession Agreement

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

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

On February 28, 2008, the Group, through NGCP, entered into a Concession Agreement with PSALM and TRANSCO granting the Group, 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<sup>th</sup> anniversary of the Commencement Date (the "Term") or for longer than the remaining term of the Group, through NGCP's franchise.

The Concession Agreement provides for the following, among others:

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

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

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

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

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

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

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

#### Standby Letter of Credit

In compliance with the terms and conditions of the Concession Agreement, the Group, through 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 22, 2020 until October 22, 2021.

#### Transferred Contracts

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

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### **5. Concession Fee**

As discussed in Note 4 to the consolidated interim financial statements, the Group shall pay PSALM US\$3.95 billion (P172.99 billion) as Concession Fee. Such fee is recognized as part of "Intangible asset" account in the consolidated interim statements of financial position as at June 30, 2021 and December 31, 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 from the Investors (see Note 17).

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.

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 BOD 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 for the six months ended June 30, 2021 and 2020 recognized in profit or loss amounted to P1.44 billion and P1.78 billion, respectively (see Note 14).

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## **6. Business Combination under Common Control**

As discussed in Note 1, on May 28, 2021, the shares related to the Share Swap Transaction were deemed issued following Philippine SEC's approval on the increase in authorized capital stock of the Parent Company. The business combination involving OTHI and P21 including NGCP (collectively referred to as the "acquired subsidiaries") and SGDPI qualified as a business combination of entities under common control as two major shareholders, through contractual agreement and with majority representation in the BOD, jointly controls SGDPI and the acquired subsidiaries before and after the acquisition.

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 interim statements of changes in equity.

The consolidated interim financial statements as at June 30, 2021 and December 31, 2020 and for the six months ended June 30, 2021 and 2020 were restated as if the entities had always been combined for the periods that the entities were under common control.

The restated amounts in the consolidated interim statement financial position as at June 30, 2021 as a result of the retrospective accounting of the business combination under common control were as follows:

	Adjustment from the Retrospective Application of Pooling of Interest Method for Business Combination of Entities Under Common Control									
	Statement of Financial Position of SGDP	Consolidated Statement of Financial Position of OTHI	Consolidated Statement of Financial Position of P21	Statement of Financial Position of NGCP	Share Swap Transaction	Elimination of Investment in OTHI, P21 and NGCP	Reclassification	Consolidated Statement of Financial Position of SGDP		
<b>ASSETS</b>										
Noncurrent Assets										
Intangible asset - net	P -	P -	P -	P281,837,143,093	P -	P -	P -	P281,837,143,093		
Investment	82,008,000,000	26,070,540,479	26,047,939,904	-	-	(134,126,480,383)	-	-		
Goodwill	-	10,227,305,210	-	-	-	244,305,859	-	10,471,611,069		
Property and equipment - net	-	2,491,816	112,959	3,965,403,818	-	-	-	3,968,008,593		
Receivables - net of current portion	-	-	281,760	70,881,641	-	-	-	70,881,641		
Other noncurrent assets	-	299,017	-	139,125,092	-	-	-	139,705,869		
Total Noncurrent Assets	82,008,000,000	36,300,636,522	26,048,334,623	286,012,553,644	-	(133,882,174,524)	-	296,487,350,265		
Current Assets										
Cash and cash equivalents	43,892,570	972,985,407	959,641,128	7,840,395,447	-	-	-	9,816,914,552		
Receivables - net	-	-	66,500	14,722,221,408	-	-	-	14,722,287,908		
Prepaid expenses and other current assets	-	9,639,083	11,447,234	26,737,926,320	-	-	-	26,759,012,637		
Total Current Assets	43,892,570	982,624,490	971,154,862	49,300,543,175	-	-	-	51,298,215,097		
	P82,051,892,570	P37,283,261,012	P27,019,489,485	P335,313,096,819	P -	(P133,882,174,524)	P -	P347,785,565,362		
Forward										

Adjustment from the Retrospective Application of Pooling of Interest Method for Business Combination of Entities Under Common Control

	Statement of Financial Position of SGDP	Consolidated Statement of Financial Position of OTH	Consolidated Statement of Financial Position of P21	Statement of Financial Position of NGCP	Share Swap Transaction	Elimination of Investment in OTH, P21 and NGCP	Reclassification	Consolidated Statement of Financial Position of SGDP
<b>LIABILITIES AND EQUITY</b>								
<b>Noncurrent Liabilities</b>								
Loans payable - net of current portion	P -	P -	P -	P126,484,587,934	P -	P -	P -	P126,484,587,934
Retirement benefits liability	-	-	-	1,885,976,867	-	-	-	1,885,976,867
Customers' and other deposits	-	-	-	396,191,965	-	-	-	396,191,965
Concession fee payable	-	-	-	54,319,128,352	-	-	-	54,319,128,352
Other noncurrent liabilities	987	-	-	1,589,953,736	-	-	-	1,589,954,723
<b>Total Noncurrent Liabilities</b>	<b>987</b>	<b>-</b>	<b>-</b>	<b>184,675,838,854</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>184,675,839,841</b>
<b>Current Liabilities</b>								
Trade and other current payables	2,212,327	241,769	843,645,374	39,759,971,709	-	-	(843,429,132)	39,762,642,047
Current portion of loans payable	-	-	-	14,721,169,312	-	-	-	14,721,169,312
Other current liabilities	250,051,483	31,250,000	31,250,000	9,500,010,714	-	-	843,429,132	10,655,991,329
<b>Total Current Liabilities</b>	<b>252,263,810</b>	<b>31,491,769</b>	<b>874,895,374</b>	<b>63,981,151,735</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>65,139,802,688</b>
<b>Total Liabilities</b>	<b>252,264,797</b>	<b>31,491,769</b>	<b>874,895,374</b>	<b>248,656,990,589</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>249,815,642,529</b>
<b>Equity</b>								
Capital stock	4,149,866,000	12,900,000,000	1,300,000,000	2,000,000,000	-	(16,200,000,000)	-	4,149,866,000
Additional paid-in capital	77,700,937,730	3,208,700,000	-	44,843,375,000	-	(48,052,075,000)	-	77,700,937,730
Remeasurements gains(losses) on defined benefit liability	-	-	-	(150,281,879)	-	89,868,564	-	(60,413,315)
Share in other comprehensive income (loss) of an associate	-	(28,320,492)	(28,320,492)	-	-	56,640,984	-	-
Equity adjustments from common control transactions	-	-	-	-	-	(73,359,171,000)	-	(73,359,171,000)
Hedging Reserve	-	-	-	-	-	-	-	-
Retained earnings	(51,175,957)	21,171,389,735	24,872,914,603	39,963,013,109	-	(25,259,211,656)	-	60,696,929,834
<b>Equity Attributable to Equity Holders of the Parent Company</b>	<b>81,799,627,773</b>	<b>37,251,769,243</b>	<b>26,144,594,111</b>	<b>86,656,106,230</b>	<b>-</b>	<b>(162,723,948,108)</b>	<b>-</b>	<b>69,128,149,249</b>
<b>Non-controlling interest</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>28,841,773,584</b>	<b>-</b>	<b>28,841,773,584</b>
<b>Total Equity</b>	<b>81,799,627,773</b>	<b>37,251,769,243</b>	<b>26,144,594,111</b>	<b>86,656,106,230</b>	<b>-</b>	<b>(133,882,174,524)</b>	<b>-</b>	<b>97,969,922,833</b>
	P82,051,892,570	P37,283,261,012	P27,019,489,485	P335,313,096,819	P -	(P133,882,174,524)	P -	P347,785,565,362

The restated amounts in the consolidated interim statement of income and consolidated interim statement of comprehensive income for the six months ended June 30, 2021 as a result of the retrospective accounting of the business combination under common control were as follows:

	Adjustment from the Retrospective Application of Pooling of Interest Method for Business Combination of Entities Under Common Control									
	Statement of Income of SGDP1	Consolidated Statement of Income of OTH1	Consolidated Statement of Income of P21	Statement of Income of NGCP	Share of Noncontrolling Interests in Net Income of OTH1, P21 and NGCP	Elimination of Investment in OTH1, P21 and NGCP	Consolidated Statement of Income of SGDP1			
REVENUES - Net	P -	P -	P -	P24,186,188,628	P -	P -	P24,186,188,628			
<b>EXPENSES</b>										
Amortization of intangible asset	-	-	-	4,407,276,749	-	-	4,407,276,749			
Salaries, wages and employee benefits	2,942,264	454,761	777,746	2,152,015,450	-	-	2,156,190,221			
Donation for COVID-19 preventive drive	-	-	-	-	-	-	-			
Repairs and maintenance	9,637	60,684	249,539	455,007,346	-	-	455,327,206			
Depreciation	-	879,464	374,962	302,821,417	-	-	304,075,843			
Insurance	1,122	-	101,969	247,006,298	-	-	247,108,969			
Security and janitorial	-	-	-	241,395,785	-	-	241,395,785			
Supervision and regulatory fees	-	-	-	234,216,875	-	-	234,216,875			
Communication, light and water	-	15,384	191,598	207,869,265	-	-	208,076,247			
Supplies and tools	1,000	27,100	306,198	139,503,948	-	-	139,838,246			
Public relation and corporate social responsibility	-	-	-	96,118,728	-	-	96,118,728			
Transportation and travel	150	350	199,892	92,461,404	-	-	92,661,796			
Representation and entertainment	-	46,692	294,655	70,483,000	-	-	70,824,347			
Fuel and oil	-	-	-	53,695,632	-	-	53,695,632			
Rent	-	-	353,883	43,945,992	-	-	44,299,875			
Taxes and licenses	241,057	139,147	67,722	35,531,464	-	-	35,979,390			
Outside services	-	-	-	35,963,986	-	-	35,963,986			
Provision for impairment losses on receivables	-	-	-	32,335,000	-	-	32,335,000			
Professional fees	8,559,675	1,636,042	6,974,343	12,233,302	-	-	29,403,362			
Advertising	-	-	-	8,634,037	-	-	8,634,037			
Director's fee	-	7,500,000	-	-	-	-	7,500,000			
Meetings and conferences	-	-	-	7,438,447	-	-	7,438,447			
Charitable contributions	-	-	-	1,668,327	-	-	1,668,327			
Filing fees	1,200,077	-	-	-	-	-	1,200,077			
Management fees	-	3,000,000	3,000,000	-	-	(6,000,000)	-			
Miscellaneous	1,194,925	39,916	82,836	2,862,369	-	-	4,180,046			
	P14,149,907	P13,799,540	P12,974,943	P8,880,484,821	P -	(P6,000,000)	P8,915,409,211			
<b>INCOME (LOSS) FROM OPERATIONS</b>	<b>(P14,149,907)</b>	<b>(P13,799,540)</b>	<b>(P12,974,943)</b>	<b>P15,305,703,807</b>	<b>P -</b>	<b>P6,000,000</b>	<b>P15,270,779,417</b>			

Forward

Adjustment from the Retrospective Application of Pooling of Interest Method for Business Combination of Entities  
Under Common Control

	Statement of Income of SGDP I	Consolidated Statement of Income of OTH I	Consolidated Statement of Income of P21	Statement of Income of NGCP	Share of Noncontrolling Interests in Net Income of OTH I, P21 and NGCP	Elimination of Investment in OTH I, P21 and NGCP	Consolidated Statement of Income of SGDP I
<b>OTHER INCOME (CHARGES) - Net</b>							
Interest expense	P - -	P - -	(P865)	(P3,055,773,944)	P - -	P - -	(P3,055,774,809)
Foreign exchange gain (loss) - net	3,948	7,072	9,904	112,569,900	-	-	112,590,824
Bank and finance charges	(1,850)	(785)	(1,085)	(103,638,065)	-	-	(103,641,786)
Interest income	855,618	2,123,218	1,749,570	27,077,126	-	-	31,805,532
Loss on disposal of property and equipment	-	-	-	-	-	(7,364,647,900)	-
Equity in net earnings of an associate	-	-	-	-	-	(6,000,000)	-
Management income	6,000,000	3,682,323,950	3,682,323,950	-	-	-	243,503,273
Miscellaneous income	-	-	-	243,503,273	-	-	-
	6,857,716	3,684,453,455	3,684,081,474	(2,776,261,710)	-	(7,370,647,900)	(2,771,516,965)
<b>CONSTRUCTION REVENUE AND COSTS</b>							
Construction revenue	-	-	-	18,489,691,842	-	-	18,489,691,842
Construction costs	-	-	-	(18,489,691,842)	-	-	(18,489,691,842)
	-	-	-	-	-	-	-
<b>NET INCOME (LOSS) BEFORE TAX</b>	(7,292,191)	3,670,653,915	3,671,106,531	12,529,442,097	-	(7,364,647,900)	12,499,262,452
<b>INCOME TAX EXPENSE</b>	172,905	-	(8)	-	-	-	172,897
<b>NET INCOME (LOSS)</b>	(P7,465,096)	P3,670,653,915	P3,671,106,539	P12,529,442,097	P - -	(P7,364,647,900)	P12,499,089,555
<b>Attributable to:</b>							
Equity holders of the Parent Company	(P7,465,096)	P3,670,653,915	P3,671,106,539	P12,529,442,097	(P7,487,033,517)	(P7,364,647,900)	P5,012,056,038
Non-controlling interests	-	-	-	-	7,487,033,517	-	7,487,033,517
	(P7,465,096)	P3,670,653,915	P3,671,106,539	P12,529,442,097	P - -	(P7,364,647,900)	P12,499,089,555

Forward

Adjustment from the Retrospective Application of Pooling of Interest Method for Business Combination of Entities  
Under Common Control

	Statement of Income of SGDPI	Consolidated Statement of Income of OTHI	Consolidated Statement of Income of P21	Statement of Income of NGCP	Share of Noncontrolling Interests in Net Income of OTHI, P21 and NGCP	Elimination of Investment in OTHI, P21 and NGCP	Consolidated Statement of Income of SGDPI
<b>NET INCOME (LOSS)</b>	(P7,465,096)	P3,670,653,915	P3,671,106,539	P12,529,442,097	P -	(P7,364,647,900)	P12,499,089,555
<b>OTHER COMPREHENSIVE INCOME (LOSS)</b>							
<i>Item that will never be reclassified to profit or loss</i>							
Remeasurement losses on defined benefit liability	-	85,090,336	85,090,336	227,754,213	-	(170,180,672)	227,754,213
<i>Item that can be reclassified to profit or loss</i>							
Hedging reserve	-	-	-	-	-	-	-
<b>OTHER COMPREHENSIVE INCOME (LOSS)</b>	-	85,090,336	85,090,336	227,754,213	-	(170,180,672)	227,754,213
<b>TOTAL COMPREHENSIVE INCOME (LOSS)</b>	(P7,465,096)	P3,755,744,251	P3,756,196,875	P12,757,196,310	P -	(P7,534,828,572)	P12,726,843,768
<b>Attributable to:</b>							
Equity holders of the Parent Company	(P7,465,096)	P3,755,744,251	P3,756,196,875	P12,757,196,310	(P7,623,230,536)	(P7,534,828,572)	P5,103,613,232
Non-controlling Interests	-	-	-	-	7,623,230,536	-	7,623,230,536
	(P7,465,096)	P3,755,744,251	P3,756,196,875	P12,757,196,310	P -	(P7,534,828,572)	P12,726,843,768

The restated amounts in the consolidated interim statement financial position as at December 31, 2020 as a result of the retrospective accounting of the business combination under common control were as follows:

	Adjustment from the Retrospective Application of Pooling of Interest Method for Business Combination of Entities Under Common Control									
	Statement of Financial Position of SGDP1	Consolidated Statement of Financial Position of OTHI	Consolidated Statement of Financial Position of P21	Statement of Financial Position of NGCP	Share Swap Transaction	Elimination of Investment in OTHI, P21 and NGCP	Reclassification	Consolidated Statement of Financial Position of SGDP1		
<b>ASSETS</b>										
Noncurrent Assets										
Intangible asset - net	P -		P -	P -	P -	P -	P -	P267,754,728,000		
Investment	-	24,103,126,193	24,080,525,618	-	82,008,000,000	(130,191,651,811)	-	10,471,611,069		
Goodwill	-	10,227,305,210	-	-	-	244,305,859	-	3,974,895,999		
Property and equipment - net	-	3,371,279	487,921	3,971,036,799	-	-	-	102,613,858		
Receivables - net of current portion	-	-	-	102,613,858	-	-	-	146,516,598		
Other noncurrent assets	-	404,554	294,161	145,817,883	-	-	-	282,450,365,524		
<b>Total Noncurrent Assets</b>	-	34,334,207,236	24,081,307,700	271,974,196,540	82,008,000,000	(129,947,345,952)	-	282,450,365,524		
Current Assets										
Cash and cash equivalents	256,565,047	143,154,710	101,776,731	13,579,687,970	-	-	-	14,081,184,458		
Receivables - net	-	-	42,300	13,577,605,115	-	-	-	13,577,647,415		
Prepaid expenses and other current assets	-	9,148,580	10,906,534	34,482,918,194	-	-	-	34,502,973,308		
<b>Total Current Assets</b>	256,565,047	152,303,290	112,725,565	61,640,211,279	-	-	-	62,161,805,181		
	P256,565,047	P34,486,510,526	P24,194,033,265	P333,614,407,819	P82,008,000,000	(P129,947,345,952)	P -	P344,612,170,705		

Forward

## Adjustment from the Retrospective Application of Pooling of Interest Method for Business Combination of Entities Under Common Control

	Statement of Financial Position of SGDP1	Consolidated Statement of Financial Position of OTH1	Consolidated Statement of Financial Position of P21	Statement of Financial Position of NGCP	Share Swap Transaction	Elimination of Investment in OTH1, P21 and NGCP	Reclassification	Consolidated Statement of Financial Position of SGDP1
<b>LIABILITIES AND EQUITY</b>								
<b>Noncurrent Liabilities</b>								
Loans payable - net of current portion	P -	P -	P -	P122,503,864,258	P -	P -	P -	P122,503,864,258
Retirement benefits liability	-	-	-	2,027,098,489	-	-	-	2,027,098,489
Customers' and other deposits	-	-	-	400,865,396	-	-	-	400,865,396
Concession fee payable	-	-	-	54,319,128,352	-	-	-	54,319,128,352
Other noncurrent liabilities	-	-	-	1,767,715,209	-	-	-	1,767,715,209
<b>Total Noncurrent Liabilities</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>181,018,671,704</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>181,018,671,704</b>
<b>Current Liabilities</b>								
Trade and other current payables	758,425	90,485,534	905,635,997	50,777,938,686	-	-	(843,429,132)	50,931,389,510
Current portion of loans payable	-	-	-	13,181,457,762	-	-	-	13,181,457,762
Other current liabilities	250,051,483	-	32	8,737,429,747	-	-	843,429,132	9,830,910,394
<b>Total Current Liabilities</b>	<b>250,809,908</b>	<b>90,485,534</b>	<b>905,636,029</b>	<b>72,696,826,195</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>73,943,757,666</b>
<b>Total Liabilities</b>	<b>250,809,908</b>	<b>90,485,534</b>	<b>905,636,029</b>	<b>253,715,497,899</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>254,962,429,370</b>
<b>Equity</b>								
Capital stock	49,466,000	12,900,000,000	1,300,000,000	2,000,000,000	4,100,400,000	(16,200,000,000)	-	4,149,866,000
Additional paid-in capital	-	3,208,700,000	-	44,843,375,000	77,907,600,000	(48,052,075,000)	-	77,907,600,000
Remeasurements gains(losses) on defined benefit liability	-	-	-	(378,036,092)	-	226,065,583	-	(151,970,509)
Share in other comprehensive income (loss) of an associate	-	(113,410,828)	(113,410,828)	-	-	226,821,656	-	-
Equity adjustments from common control transactions	-	-	-	33,433,571,012	-	(73,359,171,000)	-	(73,359,171,000)
Retained earnings	(43,710,861)	18,400,735,820	22,101,808,064	-	-	(18,207,530,239)	-	55,684,873,796
<b>Equity Attributable to Equity Holders of the Parent Company</b>	<b>5,755,139</b>	<b>34,396,024,992</b>	<b>23,288,397,236</b>	<b>79,898,909,920</b>	<b>82,008,000,000</b>	<b>(155,365,889,000)</b>	<b>-</b>	<b>64,231,198,287</b>
Non-controlling interest	-	-	-	-	-	25,418,543,048	-	25,418,543,048
<b>Total Equity</b>	<b>P5,755,139</b>	<b>P34,396,024,992</b>	<b>P23,288,397,236</b>	<b>P79,898,909,920</b>	<b>P82,008,000,000</b>	<b>(P129,947,345,952)</b>	<b>P -</b>	<b>P89,649,741,335</b>
	<b>P256,565,047</b>	<b>P34,486,510,526</b>	<b>P24,194,033,265</b>	<b>P333,614,407,819</b>	<b>P82,008,000,000</b>	<b>(P129,947,345,952)</b>	<b>P -</b>	<b>P344,612,170,705</b>

The restated amounts in the consolidated interim statement of income and consolidated interim statement of comprehensive income for the six months ended June 30, 2020 as a result of the retrospective accounting of the business combination under common control were as follows:

	Adjustment from the Retrospective Application of Pooling of Interest Method for Business Combination of Entities Under Common Control						
	Statement of Income of SGDPI	Consolidated Statement of Income of OTHI	Consolidated Statement of Income of P21	Statement of Income of NGCP	Share of Noncontrolling Interests in Net Income of OTHI, P21 and NGCP	Elimination of Investment in OTHI, P21 and NGCP	Consolidated Statement of Income of SGDPI
	P -	P -	P -	P24,183,112,007	P -	P -	P24,183,112,007
<b>REVENUES - Net</b>							
<b>EXPENSES</b>							
Amortization of intangible asset	-	-	-	P4,155,290,391	-	-	4,155,290,391
Salaries, wages and employee benefits	2,908,850	424,878	1,204,258	2,050,570,862	-	-	2,055,108,848
Repairs and maintenance	-	60,684	71,117	415,884,176	-	-	416,015,977
Depreciation	-	2,116,643	951,630	338,655,501	-	-	341,723,774
Insurance	1,122	-	110,535	208,604,284	-	-	208,715,941
Security and janitorial	-	-	-	230,688,205	-	-	230,688,205
Supervision and regulatory fees	-	-	-	234,216,875	-	-	234,216,875
Communication, light and water	-	15,528	148,826	204,115,407	-	-	204,279,761
Supplies and tools	2,561	32,781	304,184	78,086,542	-	-	78,426,068
Public relation and corporate social responsibility	-	-	-	153,247,761	-	-	153,247,761
Transportation and travel	160	238	118,706	75,610,417	-	-	75,729,521
Representation and entertainment	5,500	49,818	141,437	81,729,437	-	-	81,926,192
Fuel and oil	-	-	-	48,561,521	-	-	48,561,521
Rent	-	-	117,961	41,074,959	-	-	41,192,920
Outside services	-	-	-	92,238,653	-	-	92,238,653
Taxes and licenses	112,839	38,264	50,654	38,712,517	-	-	38,914,274
Provision for impairment losses on receivables	-	-	-	32,335,000	-	-	32,335,000
Professional fees	16,408,640	1,566,667	7,039,212	11,274,411	-	-	36,288,930
Advertising	-	-	-	7,429,653	-	-	7,429,653
Director's fee	-	7,500,000	-	-	-	-	7,500,000
Meetings and conferences	-	-	-	8,316,647	-	-	8,316,647
Charitable contributions	-	-	-	632,774	-	-	632,774
Filing fees	1,225,587	-	-	-	-	-	1,225,587
Donation for COVID 19 Preventive Drive	-	-	-	1,000,000,000	-	-	1,000,000,000
Miscellaneous	65,185	6,700	128,633	4,053,963	-	-	4,254,481
Management fees	-	11,253,095	11,253,095	-	-	(22,506,190)	-
	P20,730,444	P23,065,296	P21,640,248	P9,511,329,956	P -	(P22,506,190)	P9,554,259,754
<b>INCOME (LOSS) FROM OPERATIONS</b>	(P20,730,444)	(P23,065,296)	(P21,640,248)	P14,671,782,051	P -	P22,506,190	P14,628,852,253

Forward

Adjustment from the Retrospective Application of Pooling of Interest Method for Business Combination of Entities Under Common Control

	Statement of Income of SGDP1	Consolidated Statement of Income of OTHI	Consolidated Statement of Income of P21	Statement of Income of NGCP	Share of Noncontrolling Interests in Net Income of OTHI, P21 and NGCP	Elimination of Investment in OTHI, P21 and NGCP	Consolidated Statement of Income of SGDP1
<b>OTHER INCOME (CHARGES) - Net</b>							
Interest expense	P - 3,248	P - 3,479,823	(P5,339) 3,415,350	(P3,468,836,171) 141,603,904	P - -	P - -	(P3,468,841,510) 148,502,325
Interest income	(6,939)	(11,277)	(15,943)	141,288,772	-	-	141,254,613
Foreign exchange gain (loss) - net	(58)	(1,150)	(4,456)	(98,579,001)	-	-	(98,584,665)
Bank and finance charges	-	-	-	-	-	-	-
Loss on disposal of property and equipment	-	-	-	-	-	-	-
Equity in net earnings of an associate	-	3,425,282,228	3,425,282,228	-	-	(6,850,564,456)	-
Management income	22,506,190	-	-	-	-	(22,506,190)	-
Miscellaneous income	-	-	1,620	30,347,873	-	-	30,349,493
	22,502,441	3,428,749,624	3,428,673,460	(3,254,174,623)	-	(6,873,070,646)	(3,247,319,744)
<b>CONSTRUCTION REVENUE AND COSTS</b>							
Construction revenue	-	-	-	18,626,125,035	-	-	18,626,125,035
Construction costs	-	-	-	(18,626,125,035)	-	-	(18,626,125,035)
<b>NET INCOME BEFORE TAX</b>	1,771,997	3,405,684,328	3,407,033,212	11,417,607,428	-	(6,850,564,456)	11,381,532,509
<b>INCOME TAX EXPENSE</b>	528,741	-	-	-	-	-	528,741
<b>NET INCOME</b>	P1,243,256	P3,405,684,328	P3,407,033,212	P11,417,607,428	P -	(P6,850,564,456)	P11,381,003,768
<b>Attributable to:</b>							
Equity holders of the Parent Company	P1,243,256	P3,405,684,328	P3,407,033,212	P11,417,607,428	P -	(P6,850,564,456)	P11,381,003,768
Non-controlling interests	-	P3,405,684,328	P3,407,033,212	P11,417,607,428	P -	(P6,850,564,456)	P11,381,003,768

Forward

Adjustment from the Retrospective Application of Pooling of Interest  
Method for Business Combination of Entities Under Common  
Control

	Statement of Income of SGDPI	Consolidated Statement of Income of OTHI	Consolidated Statement of Income of P21	Statement of Income of NGCP	Share of Noncontrolling Interests in Net Income of OTHI, P21 and NGCP	Elimination of Investment in OTHI, P21 and NGCP	Consolidated Statement of Income of SGDPI
<b>NET INCOME</b>	P1,243,256	P3,405,684,328	P3,407,033,212	P11,417,607,428	P -	(P6,850,564,456)	P11,381,003,768
<b>OTHER COMPREHENSIVE INCOME</b>							
<i>Item that will never be reclassified to profit or loss</i>							
Remeasurement losses on defined benefit liability	-	-	-	-	-	-	-
<i>Item that can be reclassified to profit or loss</i>							
Hedging reserve	-	-	-	-	-	-	-
<b>OTHER COMPREHENSIVE INCOME</b>	-	-	-	-	-	-	-
<b>TOTAL COMPREHENSIVE INCOME</b>	P1,243,256	P3,405,684,328	P3,407,033,212	P11,417,607,428	P -	(P6,850,564,456)	P11,381,003,768
<b>Attributable to:</b>							
Equity holders of the Parent Company	P1,243,256	P3,405,684,328	P3,407,033,212	P11,417,607,428	(P6,822,666,802)	(P6,850,564,456)	P4,558,336,966
Non-controlling interests	-	-	-	-	6,822,666,802	-	6,822,666,802
	P1,243,256	P3,405,684,328	P3,407,033,212	P11,417,607,428	P -	(P6,850,564,456)	<b>P11,381,003,768</b>

The restated amounts in the consolidated interim statements of cash flows for the six months ended June 30, 2021 and 2020 as a result of the retrospective accounting of the business combination under common control were as follows:

	June 30, 2021						
	Adjustment from the Retrospective Application of Pooling of Interest Method for Business Combination of Entities Under Common Control						
	Statement of Cash Flow of SGDP	Consolidated Statement of Cash Flow of OTH	Consolidated Statement of Cash Flow of P21	Statement of Cash Flow of NGCP	Elimination of Investment in OTH, P21 and NGCP	Consolidated Statement of Cash Flow of SGDP	
Net cash flows provided by operating activities	(P6,014,155)	(P70,176,375)	(P41,948,621)	P4,033,654,436	P -	P3,915,515,285	
Net cash flows used in investing activities	-	1,800,000,000	1,800,012,401	(9,478,332,389)	(3,600,000,000)	(9,478,319,988)	
Net cash flows used in financing activities	(206,662,270)	(900,000,000)	(900,209,287)	(531,128,249)	3,600,000,000	1,062,000,194	
Effect of exchange rate changes in cash and cash equivalents	3,948	7,072	9,904	236,513,679	-	236,534,603	
Net increase (decrease) in cash and cash equivalents	(212,672,477)	829,830,697	857,864,397	(5,739,292,523)	-	(4,264,269,906)	
Cash and cash equivalents at beginning of year	256,565,047	143,154,710	101,776,731	13,579,687,970	-	14,081,184,458	
Cash and cash equivalents at end of year	P43,892,570	P972,985,407	P959,641,128	P7,840,395,447	P -	P9,816,914,552	
June 30, 2020							
Adjustment from the Retrospective Application of Pooling of Interest Method for Business Combination of Entities Under Common Control							
	Statement of Cash Flow of SGDP	Consolidated Statement of Cash Flow of OTH	Consolidated Statement of Cash Flow of P21	Statement of Cash Flow of NGCP	Elimination of Investment in OTH, P21 and NGCP	Consolidated Statement of Cash Flow of SGDP	
Net cash flows provided by operating activities	(P1,682,750)	(P43,379,300)	(P870,755,469)	P12,284,073,896	P -	P11,368,256,377	
Net cash flows used in investing activities	-	1,800,253,997	1,799,932,696	(9,234,722,838)	(3,600,000,000)	(9,234,536,145)	
Net cash flows used in financing activities	-	(880,000,000)	(45,338,159)	(2,297,572,337)	3,600,000,000	377,089,504	
Effect of exchange rate changes in cash and cash equivalents	(6,939)	(11,277)	(49,722)	(181,358,412)	-	(181,426,350)	
Net increase (decrease) in cash and cash equivalents	(1,689,689)	876,863,420	883,789,346	570,420,309	-	2,329,383,366	
Cash and cash equivalents at beginning of year	8,199,603	164,803,932	116,626,333	15,725,782,642	-	16,015,412,510	
Cash and cash equivalents at end of year	P6,509,914	P1,041,667,352	P1,000,415,679	P16,296,202,951	P -	P18,344,795,896	

Adjustments from the retrospective applicable of business combination under common control follows:

a. Share Swap Transaction

This represents the issuance of 2,050,200,000 new common shares with a par value of P1.00 to each of the two major shareholders of OTHI and P21 as consideration for the acquisition by the SGDPI under a Share Swap Transaction of the major shareholder's investment in 86,430,000 with par value of P100 shares of OTHI and 871,000,000 with par value of P1 of P21, respectively.

The details of the share swap transaction follow:

	Percentage of Ownership	Amount
Transfer value as approved by SEC (Note 1)		
OTHI	67%	P41,004,000,000
P21	67%	41,004,000,000
		82,008,000,000
Par value of shares issued by SGDPI		4,100,400,000
Additional paid-in capital of SGDPI		P77,907,600,000

Related transaction costs from the share swap transaction paid and incurred in 2021 amounting to P206.66 million were deducted against additional paid-in capital as at June 30, 2021.

b. Elimination of investments in OTHI and P21 follows:

June 30, 2021	OTHI	P21	NGCP	Total
Equity attributable to equity holders of the Parent Company:				
Capital stock	P12,900,000,000	P1,300,000,000	P2,000,000,000	P16,200,000,000
Additional paid-in-capital	3,208,700,000	-	44,843,375,000	48,052,075,000
Equity adjustments from common control transactions	33,226,171,000	40,133,000,000	-	73,359,171,000
Share in other comprehensive income (loss) of an associate	(28,320,492)	(28,320,492)	-	(56,640,984)
Hedging reserve	-	-	-	-
Remeasurements gains(losses) on defined benefit liability	-	-	(89,868,564)	(89,868,564)
Retained earnings	(10,841,715,166)	(6,610,912,662)	42,711,839,484	25,259,211,656
Non-controlling interests	10,781,713,378	14,475,382,449	(54,098,869,411)	(28,841,773,584)
Goodwill	133,453,217	110,852,642	-	244,305,859
Investment in associate	(8,376,001,937)	(8,376,001,937)	(35,366,476,509)	(52,118,480,383)
Transfer value	41,004,000,000	41,004,000,000	-	82,008,000,000
	P -	P -	P -	P -

December 31, 2020	OTHI	P21	NGCP	Total
Equity attributable to equity holders of the Parent Company:				
Capital stock	P12,900,000,000	P1,300,000,000	P2,000,000,000	P16,200,000,000
Additional paid-in-capital	3,208,700,000	-	44,843,375,000	48,052,075,000
Equity adjustments from common control transactions	33,226,171,000	40,133,000,000	-	73,359,171,000
Share in other comprehensive income (loss) of an associate	(113,410,828)	(113,410,828)	-	(226,821,656)
Hedging reserve	-	-	-	-
Remeasurements gains(losses) on defined benefit liability	-	-	(226,065,583)	(226,065,583)
Retained earnings	(11,821,178,004)	(7,590,524,866)	37,619,233,109	18,207,530,239
Non-controlling interests	9,878,852,266	13,572,670,703	(48,870,066,017)	(25,418,543,048)
Goodwill	133,453,217	110,852,642	-	244,305,859
Investment in associate	(6,408,587,651)	(6,408,587,651)	(35,366,476,509)	(48,183,651,811)
	41,004,000,000	41,004,000,000	-	82,008,000,000
Transfer value	41,004,000,000	41,004,000,000	-	82,008,000,000
	P -	P -	P -	P -

#### *Equity Adjustments from Common Control Transactions*

This account represents the excess of transfer value over the net assets of OTHI and P21 attributable to the ownership of the major stockholder of OTHI and P21. Details are as follows:

	OTHI	P21	Total
Transfer value	P41,004,000,000	P41,004,000,000	P82,008,000,000
Net assets acquired	7,777,829,000	871,000,000	8,648,829,000
Equity adjustments from common control transactions	P33,226,171,000	P40,133,000,000	P73,359,171,000

- c. Certain accounts in the consolidated interim statements of financial position were reclassified for consistency of financial statements presentation. The reclassifications had no effect on the reported performance for any period presented.

## 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, 2021				December 31, 2020			
	Consolidated OTHI	Consolidated P21	NGCP	Consolidated OTHI	Consolidated P21	Consolidated OTHI	Consolidated P21	NGCP
Percentage of non-controlling interests	33%	33%	59.80%	33%	33%	33%	33%	59.80%
Carrying amount of non-controlling interests	(P10,781,713,378)	(P14,475,382,448)	P54,098,869,410	(P9,878,852,266)	(P13,572,670,703)	(P13,572,670,703)	(P13,572,670,703)	P48,870,066,017
Net income attributable to non-controlling interests	(P2,861,112)	(P2,711,746)	P7,492,606,374	(P5,510,041)	(P4,521,292)	(P4,521,292)	(P4,521,292)	P14,051,018,187
Other comprehensive income attributable to non-controlling interests	P -	P -	P136,197,019	P -	P -	P -	P -	(P110,591,945)
Dividends paid to non-controlling interests	P900,000,000	P900,000,000	P2,400,000,000	P3,570,000,000	P3,570,000,000	P3,570,000,000	P3,570,000,000	P4,800,000,000

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

	June 30, 2021				December 31, 2020			
	Consolidated OTHI	Consolidated P21	NGCP	Consolidated OTHI	Consolidated P21	Consolidated OTHI	Consolidated P21	NGCP
Current assets	P982,624,490	P971,154,862	P49,300,543,175	P152,303,290	P112,725,565	P61,640,211,279	P112,725,565	P61,640,211,279
Noncurrent assets	36,300,636,522	26,048,334,623	286,012,553,644	34,334,207,236	24,081,307,700	271,974,196,540	24,081,307,700	271,974,196,540
Current liabilities	31,491,769	874,895,374	63,981,151,735	(90,485,534)	(905,636,029)	(72,696,826,195)	(905,636,029)	(72,696,826,195)
Noncurrent liabilities	-	-	-	-	-	(181,018,671,704)	-	(181,018,671,704)
Net assets	P37,283,261,012	P27,019,489,485	P335,313,096,819	P34,396,024,992	P23,288,397,236	P79,898,909,920	P23,288,397,236	P79,898,909,920
Revenues/ Income	P3,682,323,950	P3,682,323,950	P24,186,188,628	P7,056,399,978	P7,055,830,334	P48,606,604,103	P7,055,830,334	P48,606,604,103
Net income	P3,670,653,915	P3,671,106,539	P12,529,442,097	P7,018,055,590	P7,021,051,801	P23,496,685,932	P7,021,051,801	P23,496,685,932
Other comprehensive income (loss)	85,090,336	85,090,336	227,754,213	(55,480,909)	(55,480,909)	(184,936,363)	(55,480,909)	(184,936,363)
Total comprehensive income	P3,755,744,251	P3,756,196,875	P12,757,196,310	P6,962,574,681	P6,955,570,892	P23,311,749,569	P6,955,570,892	P23,311,749,569
Cash flows provided by (used in) operating activities	(P70,176,375)	(P41,948,621)	P4,033,654,436	(P51,614,042)	(P44,081,685)	P44,166,430,421	(P51,614,042)	(P44,081,685)
Cash flows provided by (used in) investing activities	1,800,000,000	1,800,012,401	(9,478,332,389)	3,600,000,000	3,599,920,294	(41,610,444,940)	3,600,000,000	3,599,920,294
Cash flows provided by (used in) financing activities	(900,000,000)	(900,209,287)	(531,128,249)	(3,570,000,000)	(3,570,638,489)	(4,599,885,358)	(3,570,000,000)	(3,570,638,489)
Effect of exchange rate changes on cash and cash equivalents	7,072	9,904	236,513,679	(31,180)	(49,722)	(102,194,795)	(31,180)	(49,722)
Net increase (decrease) in cash and cash equivalents	P829,830,697	P857,864,397	(P5,739,292,523)	(P21,649,222)	(P14,849,602)	(2,146,094,672)	(P21,649,222)	(2,146,094,672)

## 8. Intangible Asset - net

This account consists of:

	<b>Note</b>	<b>June 30 2021</b>	December 31 2020
Concession fee	2, 5	<b>P160,296,289,265</b>	P160,296,289,265
Cost of completed projects	2	<b>80,631,448,622</b>	75,811,420,885
Computer software	3	<b>480,126,986</b>	480,126,986
		<b>241,407,864,873</b>	236,587,837,136
Less accumulated amortization		<b>93,063,150,042</b>	88,655,873,293
		<b>148,344,714,831</b>	147,931,963,843
Contract assets		<b>133,492,428,262</b>	119,822,764,157
		<b>P281,837,143,093</b>	P267,754,728,000

### 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 for the six months ended June 30, 2021 and 2020.

### 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 P1.20 billion and P957.87 million for the six months ended June 30, 2021 and 2020, respectively.

### Contract Assets

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

### Computer Software and License

This pertains to the costs incurred for the Enterprise Resource Planning (ERP) Project, Enterprise Document Management System (EDMS), Integrated Human Resource Application (IHRA), Integrated Meter Data Validation System (IMDVS), Medical Information System (MEDYSIS) and Visitor's Management System (VMS) amounting to P480.13 million as at June 30, 2021 and December 31, 2020.

Amortization expense recognized in profit or loss amounted to P19.19 million and P9.58 million for the six months ended June 30, 2021 and 2020, respectively.

The movements and balances of the accounts are as follows:

	Per Concession Right					Total	Computer Software		Total
	Concession Fee	Completed Projects	Contract Asset	Total	Computer Software		Total		
<b>Cost</b>									
January 1, 2020	P160,296,289,265	P71,490,931,220	P82,906,381,376	P314,693,601,861	P383,223,886	P315,076,825,747			
Additions/Adjustments	-	4,320,489,665	36,916,382,781	41,236,872,446	96,903,100	41,333,775,546			
December 31, 2020	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	-	4,820,027,737	13,669,664,105	18,489,691,842	-	18,489,691,842			
<b>June 30, 2021</b>	<b>160,296,289,265</b>	<b>80,631,448,622</b>	<b>133,492,428,262</b>	<b>374,420,166,149</b>	<b>480,126,986</b>	<b>374,900,293,135</b>			
<b>Accumulated Amortization</b>									
January 1, 2020	71,036,849,133	8,886,569,138	-	79,923,418,271	325,740,303	80,249,158,574			
Additions/Adjustments	6,375,674,298	1,998,446,761	-	8,374,121,059	32,593,660	8,406,714,719			
December 31, 2020	77,412,523,431	10,885,015,899	-	88,297,539,330	358,333,963	88,655,873,293			
Additions/Adjustments	3,187,837,148	1,200,246,692	-	4,388,083,840	19,192,909	4,407,276,749			
<b>June 30, 2021</b>	<b>80,600,360,579</b>	<b>12,085,262,591</b>	<b>-</b>	<b>92,685,623,170</b>	<b>377,526,872</b>	<b>93,063,150,042</b>			
<b>Net Carrying Amount</b>									
December 31, 2020	P82,883,765,834	P64,926,404,986	P119,822,764,157	P267,632,934,977	P121,793,023	P267,754,728,000			
<b>June 30, 2021</b>	<b>P79,695,928,686</b>	<b>P68,546,186,031</b>	<b>P133,492,428,262</b>	<b>P281,734,542,979</b>	<b>P102,600,114</b>	<b>P281,837,143,093</b>			

## 9. Goodwill

Goodwill amounting to P10.47 billion as at June 30, 2021 and December 31, 2020 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 is 8.1% in 2020 and 2019, are based on Group's expectations of market developments and past historical performance. The discount rates applied to after tax cash flow projections is 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 (Note 3).

No impairment loss was recognized for goodwill for the six months ended June 30, 2021 and 2020.

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
<b>Cost</b>					
January 1, 2020	P204,045,756	P2,667,533,959	P4,397,430,780	P3,828,911,994	P11,097,922,489
Additions during the year	5,656,864	43,886,063	283,818,729	136,288,942	469,650,598
Disposals	-	-	-	(506,693)	(506,693)
December 31, 2020	209,702,620	2,711,420,022	4,681,249,509	3,964,694,243	11,567,066,394
Additions during the period	10,348,911	36,333,233	165,730,770	84,775,522	297,188,436
<b>June 30, 2021</b>	<b>220,051,531</b>	<b>2,747,753,255</b>	<b>4,846,980,279</b>	<b>4,049,469,765</b>	<b>11,864,254,830</b>
<b>Accumulated Depreciation</b>					
January 1, 2020	46,867,796	1,721,018,156	2,790,857,728	2,363,244,311	6,921,987,991
Depreciation during the year	20,126,965	225,513,045	192,010,017	233,039,070	670,689,097
Disposals	-	-	-	(506,693)	(506,693)
December 31, 2020	66,994,761	1,946,531,201	2,982,867,745	2,595,776,688	7,592,170,395
Depreciation during the period	10,056,490	89,015,625	92,441,364	112,562,363	304,075,842
<b>June 30, 2021</b>	<b>77,051,251</b>	<b>2,035,546,826</b>	<b>3,075,309,109</b>	<b>2,708,339,051</b>	<b>7,896,246,237</b>
<b>Net Carrying Amount</b>					
December 31, 2020	P142,707,859	P764,888,821	P1,698,381,764	P1,368,917,555	P3,974,895,999
<b>June 30, 2021</b>	<b>P143,000,280</b>	<b>P712,206,429</b>	<b>P1,771,671,170</b>	<b>P1,341,130,714</b>	<b>P3,968,008,593</b>

## 11. Cash and Cash Equivalents

This account consists of:

	<i>Note</i>	<b>June 30 2021</b>	December 31 2020
Cash on hand		<b>P8,709,303</b>	P8,518,369
Cash in banks	24	<b>6,014,029,249</b>	6,809,069,889
Short-term placements	24	<b>3,794,176,000</b>	7,263,596,200
		<b>P9,816,914,552</b>	P14,081,184,458

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 0.325% - 1.50% and 0.50% - 4.50% for six months ended June 30, 2021 and 2020, respectively. Interest income earned amounted to P27.71 million and P141.83 million for six months ended June 30, 2021 and 2020, respectively.

## 12. Receivables

This account consists of:

### A. Current Receivables

	<i>Note</i>	<b>June 30 2021</b>	December 31 2020
Power receivables	24	<b>P3,962,088,544</b>	P3,980,405,660
Due from customers	24	<b>2,480,966,180</b>	2,937,787,061
Accrued transmission revenue	20	<b>6,108,715,863</b>	4,596,911,332
Output VAT receivable		<b>1,990,793,443</b>	1,857,458,314
Due from officers and employees and other receivables	24	<b>170,472,362</b>	172,372,675
Restructured power receivables	24	<b>8,133,287</b>	22,660,698
Interest receivable	11, 24	<b>1,118,229</b>	10,051,675
		<b>P14,722,287,908</b>	P13,577,647,415

### B. Noncurrent Receivables

	<i>Note</i>	<b>June 30 2021</b>	December 31 2020
Restructured power receivables		<b>P1,428,490,332</b>	P1,428,490,332
Power receivables		<b>117,962,550</b>	117,962,549
Due from customers		<b>434,222,418</b>	433,619,636
	24	<b>1,980,675,300</b>	1,980,072,517
Less allowance for impairment losses		<b>1,909,793,659</b>	1,877,458,659
		<b>P70,881,641</b>	P102,613,858

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

	<b>June 30 2021</b>	December 31 2020
Balance at beginning of the period	<b>P1,877,458,659</b>	P1,812,788,659
Provision for impairment losses on receivables during the period	<b>32,335,000</b>	64,670,000
Balance at end of the period	<b>P1,909,793,659</b>	P1,877,458,659

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

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 P0.81 million and P9.73 million as at June 30, 2021 and December 31, 2020, 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 Current Assets

This account consists of:

	<b>June 30 2021</b>	December 31 2020
Advance payment to suppliers and contractors	<b>P13,434,924,964</b>	P14,871,344,502
Court and other deposits	<b>6,513,139,281</b>	4,562,955,612
Materials, supplies and spare parts - net	<b>4,792,674,430</b>	4,365,937,800
Input VAT	<b>648,882,883</b>	1,401,879,676
Other deposits	<b>485,441,890</b>	421,123,454
Materials, supplies and spare parts in transit	<b>427,551,938</b>	8,716,515,030
Prepaid expenses	<b>418,692,411</b>	130,727,405
Other supplies	<b>28,450,678</b>	23,187,813
Guaranty deposit	<b>9,072,835</b>	9,072,835
Calamity loan fund	<b>181,327</b>	229,181
	<b>P26,759,012,637</b>	P34,502,973,308

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 P5.57 billion and P13.43 billion as at June 30, 2021 and December 31, 2020, respectively, which resulted to an accumulated write-down amount of P346.27 million as at June 30, 2021 and December 31, 2020.

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 consolidated interim statements of income amounted to P89.78 million and P84.78 million for the six months ended June 30, 2021 and 2020, respectively.

## 14. Loans Payable

### Outstanding Balance and Maturities

Outstanding balance of loans payable is presented below:

	<b>Note</b>	<b>June 30 2021</b>	December 31 2020
<b><i>Loan Facilities (net of debt issuance costs)</i></b>			
Fixed-rate peso corporate notes		<b>P46,087,137,372</b>	P50,163,990,115
Peso denominated term loan		<b>95,118,619,874</b>	85,521,331,905
	24	<b>141,205,757,246</b>	135,685,322,020
Less current portion		<b>14,721,169,312</b>	13,181,457,762
		<b>P126,484,587,934</b>	P122,503,864,258

Movements in debt issuance costs are as follows:

	<b>June 30 2021</b>	December 31 2020
Balance at beginning of the period	<b>P819,677,979</b>	P866,233,652
Debt issuance costs during the period	<b>75,209,079</b>	154,161,291
Amortization during the period	<b>(100,644,304)</b>	(200,716,963)
Balance at end of the period	<b>P794,242,754</b>	P819,677,980

### Repayment Schedule

As at June 30, 2021, the annual maturities of loans payable are as follows:

<b>Year</b>	<b>Gross Amount</b>	<b>Debt Issuance Costs</b>	<b>Net</b>
2021	<b>P7,390,000,000</b>	<b>P99,795,163</b>	<b>P7,290,204,837</b>
2022	<b>15,425,000,000</b>	<b>182,025,775</b>	<b>15,242,974,225</b>
2023	<b>21,795,000,000</b>	<b>139,737,180</b>	<b>21,655,262,820</b>
2024	<b>20,940,000,000</b>	<b>110,930,939</b>	<b>20,829,069,061</b>
2025	<b>17,650,000,000</b>	<b>94,048,939</b>	<b>17,555,951,061</b>
More than 5 years	<b>58,800,000,000</b>	<b>167,704,758</b>	<b>58,632,295,242</b>
	<b>P142,000,000,000</b>	<b>P794,242,754</b>	<b>P141,205,757,246</b>

As at December 31, 2020, the annual maturities of loans payable are as follows:

<b>Year</b>	<b>Gross Amount</b>	<b>Debt Issuance Costs</b>	<b>Net</b>
2021	P13,365,000,000	P183,542,238	P13,181,457,762
2022	14,335,000,000	162,996,628	14,172,003,372
2023	20,725,000,000	123,085,814	20,601,914,186
2024	19,770,000,000	98,619,498	19,671,380,502
2025	16,240,000,000	85,323,984	16,154,676,016
More than 5 years	52,070,000,000	166,109,818	51,903,890,182
	<b>P136,505,000,000</b>	<b>P819,677,980</b>	<b>P135,685,322,020</b>

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

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

#### *Financing of Capital Expenditures*

- a. The Group, through NGCP, entered into a P4.00 billion, P5.00 billion, and the remaining P3.00 billion from P6.00 billion Peso Bilateral Unsecured Term Loan which were drawn on February 24, 2021, May 21, 2021, and June 21, 2021, respectively, intended for purposes of financing New Projects or for any other purpose related to carrying out the Concession including but not limited to financing capital expenditures. Terms of these loans include Ten-year Peso Bilateral Unsecured Term Loan for P4.00 billion, Five-year Peso Bilateral Unsecured Term Loan for P5.00 billion, and Ten-year Peso Bilateral Unsecured Term Loan for remaining P3.00 billion drawn as at June 30, 2021. The applicable interest rate for the P4.00 billion Term Loan shall be: (i) the Interest Rate for the period beginning on the Drawdown Date until the fifth anniversary of the Drawdown Date and (ii) the Reset Interest Rate, for the period beginning on the Reset Date until the Maturity Date whereas the applicable interest rate for the P5.00 billion Term Loan shall be: the Interest Rate for the period beginning on the Drawdown Date until the 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.
  
- 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 12<sup>th</sup> month from initial issue date and the remaining for eighteen (18) semi-annual installments as a percentage of principal amount of borrowing. Amendment was made effective April 10, 2019. Interest rate from 5-yr PDST-F to 5-yr BVal and noteholders were decreased to four (4).

Interest from these loans amounting to P3.19 billion and P4.41 billion as at June 30, 2021 and December 31, 2020, respectively, were capitalized and recognized in Contract Assets under “Intangible asset” in the consolidated interim statements of financial position (see Note 8). Interest expense recognized in profit or loss amounted to P1.49 billion and to P1.11 billion for the six months ended June 30, 2021 and 2020, 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 P512.30 million and P579.61 million for the six months ended June 30, 2021 and 2020, respectively.

These loan agreements contain, among others, covenants relating to the Concession Agreement and maintenance of Debt-to-Equity (DE) ratio and Debt-to-Service Coverage Ratio (DSCR), including requirements before payment of dividends. As at June 30, 2021 and December 31, 2020, DE ratio and DSCR should not be less than 1.15 and should not be more than 4.1, respectively. As at June 30, 2021 and December 31, 2020, 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:

	<b>Loans Payable</b>
Balance at January 1, 2021	<b>P135,685,322,020</b>
Changes from financing cash flows:	
Proceeds from loans	<b>12,000,000,000</b>
Payment of loans payable	<b>(6,479,564,774)</b>
Total liability-related changes	<b>5,520,435,226</b>
<b>Balance at June 30, 2021</b>	<b>P141,205,757,246</b>
	<b>Loans Payable</b>
Balance at January 1, 2020	P128,168,766,348
Changes from financing cash flows:	
Proceeds from loans	19,200,000,000
Payment of loans payable	(11,683,444,328)
Total liability-related changes	7,516,555,672
Balance at December 31, 2020	P135,685,322,020

## 15. Trade and Other Current Payables

This account consists of:

	<i>Note</i>	<b>June 30 2021</b>	December 31 2020
Accrued expenses			
Project related		<b>P8,372,343,405</b>	P11,082,318,321
Salaries and employee benefits		<b>1,278,802,852</b>	1,523,830,102
Substation utilities and other expenses		<b>385,580,508</b>	364,627,704
Taxes/Regulatory fees		<b>328,428,370</b>	94,211,495
Others		<b>566,350,111</b>	530,511,912
	24	<b>10,931,505,246</b>	13,595,499,534
Accounts payable	24	<b>19,395,311,187</b>	26,678,220,969
Due to government agencies and others	12	<b>5,742,641,101</b>	6,344,622,442
Interest payable	5, 14, 24	<b>3,462,102,518</b>	4,078,026,367
Franchise tax payable to BIR	26	<b>231,081,995</b>	235,020,198
		<b>P39,762,642,047</b>	P50,931,389,510

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

	<i>Note</i>	<b>June 30 2021</b>	December 31 2020
Retention on contract payments		<b>P7,415,801,085</b>	P6,630,402,047
Advances for construction		<b>1,921,482,530</b>	1,921,482,530
Advances from shareholders	21	<b>618,750,400</b>	<b>618,750,400</b>
Advances from a subsidiary's minority interest		<b>474,730,215</b>	<b>474,730,215</b>
Bidders/suppliers deposits		<b>162,727,099</b>	185,545,170
Dividends payable		<b>62,500,000</b>	-
Others		-	32
	24	<b>P10,655,991,329</b>	P9,830,910,394

B. Other Noncurrent Liabilities

	<i>Note</i>	<b>June 30 2021</b>	December 31 2020
Advances for construction	24	<b>P1,578,118,840</b>	P1,740,107,863
Lease liability	22	<b>11,834,896</b>	27,607,346
Others		<b>987</b>	-
		<b>P1,589,954,723</b>	P1,767,715,209

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.

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**17. Equity**

Capital stock consists of:

	<b>Number of Shares</b>	<b>Amount</b>
Authorized shares (at P1 par value per share)		
Common	<b>5,050,000,000</b>	<b>P5,050,000,000</b>
Issued shares		
Common	<b>4,149,866,000</b>	<b>P4,149,866,000</b>

As at June 30, 2021 and December 31, 2020, the Parent Company's share price is P395.80 and offer price is P242.00, respectively. The trading of the Parent Company's share was suspended effective May 31, 2021 (Note 24).

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.

*Cash Dividends*

There were no dividends declared by the Parent Company in 2021 and 2020.

For the six months ended June 30, 2021, the BOD of OTHI approved the declaration of cash dividends amounting to P900.00 million to all shareholders of record as of date of the meeting.

For the six months ended June 30, 2021, the BOD of P21 approved the declaration of cash dividends amounting to P900.00 million to all shareholders of record as of date of the meeting.

For the six months ended June 30, 2021, the BOD of NGCP approved the declaration of cash dividends amounting to P6.00 billion to all shareholders of record as of date of the meeting. Of the total amount declared, P3.60 billion pertains to the share of the Parent Company which is eliminated during consolidation.

For the six months ended June 30, 2020, the BOD of OTHI approved the declaration of cash dividends amounting to P880.00 million to all shareholders of record as of date of the meeting.

For the six months ended June 30, 2020, the BOD of P21 approved the declaration of cash dividends amounting to P880.00 million to all shareholders of record as of date of the meeting.

For the six months ended June 30, 2020, the BOD of NGCP approved the declaration of cash dividends amounting to P6.00 billion to all shareholders of record as of date of the meeting. Of the total amount declared, P3.60 billion pertains to the share of the Parent Company which is eliminated during consolidation.

*Retained Earnings*

The retained earnings of the Group includes the accumulated earnings in subsidiaries not available for declaration as dividends until declared by the respective investee.

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**18. Earnings Per Share**

Basic and diluted earnings per share at June 30 are computed as follows:

	<b>2021</b>	2020
(a) Net income attributable to Equity holders of the Parent Company	<b>P5,012,056,038</b>	<b>P4,558,336,966</b>
(b) Weighted average common shares outstanding	<b>P4,149,866,000</b>	<b>P4,149,866,000</b>
Basic/Diluted earnings per share (a/b)	<b>P1.21</b>	<b>P1.10</b>

As at June 30, 2021 and 2020, 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, 2021 and 2020.

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**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 consists of:

	Note	2021	2020
Transmission services operating income	27	<b>P23,412,476,392</b>	P23,409,466,629
Connection and residual sub-transmission income	27	<b>773,712,236</b>	773,645,378
		<b>P24,186,188,628</b>	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.

Gains on transmission service is due to the combined effect of several factors, such as exchange rate and levels of regulated and excluded services rates for dollar customers under Executive Order 666.

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
<b>Luzon</b>	<b>P16,213,553,517</b>	<b>P426,390,015</b>	<b>P16,639,943,532</b>
Distribution utilities	P15,493,987,004	P385,766,433	P15,879,753,437
Generators	113,154,628	3,231,404	116,386,032
Directly Connected/ Non-DUs	606,411,885	37,392,178	643,804,063
<b>Visayas</b>	<b>P2,613,913,488</b>	<b>P123,771,435</b>	<b>P2,737,684,923</b>
Distribution utilities	P2,429,904,110	P117,285,462	P2,547,189,572
Generators	34,578,200	14,395	34,592,595
Directly Connected/ Non-DUs	149,431,178	6,471,578	155,902,756
<b>Mindanao</b>	<b>P2,953,714,387</b>	<b>P223,550,786</b>	<b>P3,177,265,173</b>
Distribution utilities	P2,876,966,506	P219,810,436	P3,096,776,942
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	<b>1,631,295,000</b>	-	<b>1,631,295,000</b>
<b>June 30, 2021</b>	<b>P23,412,476,392</b>	<b>P773,712,236</b>	<b>P24,186,188,628</b>

	Transmission Services Operating Income	Connection and Residual Sub-transmission Income	Total
Luzon	P15,692,399,389	P426,709,609	P16,119,108,998
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
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
Accruals for IMAR and Under recovery	2,273,172,036	-	2,273,172,036
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<sup>th</sup> RP) reset process for the transmission business under the PBR has been delayed. Under the RTWR, the Group would have filed its revenue application for the 4<sup>th</sup> RP covering the periods of 2016 to 2020 in 2015. To bridge the gap, on October 2, 2015, the Group filed an Application for the Approval of an Interim Maximum Annual Revenue for 2016 (iMAR<sub>2016</sub>) in the amount of P45,287.24 million.

In an Order dated January 21, 2016, the ERC provisionally approved an iMAR<sub>2016</sub> 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<sub>2016</sub> of P43,789.05 million. Further, the ERC directed that the difference between the provisionally-approved iMAR<sub>2016</sub> 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<sup>th</sup> 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<sub>2020</sub>) in the amount of P58,846 million, docketed as ERC Case No. 2019-086RC. Subsequently, the ERC, in its Order dated February 13, 2020, granted NGCP a provisional authority to implement an iMAR<sub>2020</sub> in the amount of P47,051.64 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<sub>2020</sub> differential in the total amount of P300 Million for both billing months of July and August 2020. However, in September 2020, the ERC directed the suspension of the billing of the iMAR<sub>2020</sub> providing among others that the demand forecast used in the determination are no longer valid and would need to be re-assessed. In compliance with the Order issued in September 2020, NGCP discontinued the billing resulting in an unbilled iMAR<sub>2020</sub> differential in the amount of P2,962.59 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<sub>2020</sub>.

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

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

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

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

In view of the foregoing, Management assessed that the suspension order merely defers the implementation of the P47 billion, and that there is no other ERC issuance or directive that states otherwise (i.e. that revenue has been modified), similar to the practice adopted by the industry.

## 21. Related Party Disclosures

Relationship with Related Parties	Year	Note	Amount of the Transaction	Outstanding Balance	Terms	Conditions
<b>Companies with the Same BOD</b>						
▪ PGAI	June 30, 2021	a	P136,476,455	P16,095,429	On demand,	Unsecured
▪	June 30, 2020	a	129,523,188	-	non-interest bearing	
	December 31, 2020	a	282,058,318	7,915,713	bearing	
▪ SMDC	June 30, 2021	b	3,852,000	1,800,000	On demand,	Unsecured
	June 30, 2020	b	1,444,500	-	non-interest bearing	
	December 31, 2020	b	3,370,500	2,565,000	bearing	
<b>Shareholders</b>						
	June 30, 2021	c	-	618,750,400	On demand,	Unsecured
	June 30, 2020	c	-	618,750,400	non-interest bearing	
	December 31, 2020	c	250,051,483	618,750,400	bearing	
<b>Key Management Personnel</b>						
▪ Short-term benefits	June 30, 2021	d	182,696,001	-		
	June 30, 2020	d	180,323,936	-		
▪ Post-employment benefits	June 30, 2021	d	10,715,337	-		
	June 30, 2020	d	10,740,000	-		
<b>June 30, 2021</b>				<b>P636,645,829</b>		
December 31, 2020				P629,231,113		

- a. The Group, through NGCP, has related party transactions with Prudential Guaranty Assurance, Inc. (PGAI) amounting to P136.48 million and P129.52 million for the six months ended June 30, 2021 and 2020, respectively, representing insurance premiums. This pertains to motor vehicle insurance, aviation, commercial general liability insurance, PGA protect, motor comprehensive, industrial all risk, engineering electronic equipment insurance and warehouse insurance in nature. The outstanding insurance payable to PGAI amounting to P16.10 million and P7.92 million as at June 30, 2021 and December 31, 2020, respectively, are recorded under the "Trade and other current payables" account in the consolidated interim statements of financial position.
- b. The Group, through NGCP, also has existing lease agreement for parking space with SM Development Corporation (SMDC) amounting to P3.85 million and P1.44 million for the six months ended June 30, 2021 and 2020, respectively. The outstanding balance payable to SMDC amounting to P1.80 million and P2.56 million as at June 30, 2021 and December 31, 2020, respectively, are recorded under the "Trade and other current payables" account in the consolidated interim statements of financial position.
- c. As at June 30, 2021 and December 31, 2020, Group, through P21, has outstanding payables to its stockholders amounting to P368.70 million, which are included under "Other current liabilities" account in the consolidated interim 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 June 30, 2021 and 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).
- d. Total remunerations of key management personnel which represent short-term benefits for the six months ended June 30, 2021 and 2020 amounted to P182.70 million and P180.32 million, respectively. Total key management compensation relating to post-employment benefits for the six months ended June 30, 2021 and 2020 amounted to P10.72 million and P10.74 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

	<b>June 30 2021</b>	December 31 2020
Balance at the beginning of the period	<b>P113,302,422</b>	P194,615,308
Additions	<b>16,918,938</b>	25,903,780
Depreciation for the period	<b>(46,646,933)</b>	(107,216,666)
Balance at the end of the period	<b>P83,574,427</b>	P113,302,422

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

	<b>June 30 2021</b>	December 31 2020
Balance at beginning of the period	<b>P115,993,645</b>	P196,912,265
Additions	<b>16,918,938</b>	25,903,780
Lease payments inclusive of interest payments	<b>(51,772,762)</b>	(117,079,519)
Interest expense	<b>3,017,041</b>	10,257,119
Balance at end of the period	<b>P84,156,862</b>	P115,993,645

Expenses relating to short-term leases amounting to P44.30 million and P41.19 million for the six months ended June 30, 2021 and 2020, respectively, were recorded as part of "Rent" in the consolidated interim statements of 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:

<b>June 30, 2021</b>	<b>Future Minimum Lease Payments</b>	<b>Interest</b>	<b>Present Value of Minimum Lease Payments</b>
Less than one year	<b>P75,043,746</b>	<b>P2,721,780</b>	<b>P72,321,966</b>
Between one to five years	<b>12,316,353</b>	<b>481,457</b>	<b>11,834,896</b>
	<b>P87,360,099</b>	<b>P3,203,237</b>	<b>P84,156,862</b>

December 31, 2020	Future Minimum Lease Payments	Interest	Present Value of Minimum Lease Payments
Less than one year	P93,063,459	P4,677,160	P88,386,299
Between one to five years	28,841,734	1,234,388	27,607,346
	P121,905,193	P5,911,548	P115,993,645

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### 23. Retirement Benefits

As at June 30, 2021 and December 31, 2020, 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 July 12, 2021 for the six months ended June 30, 2021.

#### Salient Provisions of the Retirement Plan

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

#### Funding Arrangements

The 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, 2021	December 31, 2020	June 30, 2021	December 31, 2020	June 30, 2021	December 31, 2020
<b>Balance at beginning of year</b>	<b>P337,626,920</b>	P320,407,239	<b>P2,364,725,409</b>	P1,936,272,576	<b>P2,027,098,489</b>	P1,615,865,337
<b>Recognized in Profit or Loss and Statement of Financial Position</b>						
Service costs	-	-	<b>113,359,705</b>	199,127,658	<b>113,359,705</b>	199,127,658
Interest expense	-	-	<b>44,929,783</b>	100,686,174	<b>44,929,783</b>	100,686,174
Interest income	<b>12,829,823</b>	16,661,176	-	-	<b>(12,829,823)</b>	(16,661,176)
	<b>12,829,823</b>	16,661,176	<b>158,289,488</b>	299,813,832	<b>145,459,665</b>	283,152,656
<b>Recognized in Other Comprehensive Income</b>						
Remeasurements:						
Actuarial (gains) losses arising from:						
Experience adjustments	-	-	<b>(22,142,486)</b>	(78,897,846)	<b>(22,142,486)</b>	(78,897,846)
Changes in financial assumptions	-	-	<b>(218,559,897)</b>	264,392,714	<b>(218,559,897)</b>	264,392,714
Return on plan asset excluding interest	<b>(12,948,170)</b>	558,505	-	-	<b>12,948,170</b>	(558,505)
	<b>(12,948,170)</b>	558,505	<b>(240,702,383)</b>	185,494,868	<b>(227,754,213)</b>	184,936,363
<b>Others</b>						
Contributions	<b>58,827,074</b>	56,855,867	-	-	<b>(58,827,074)</b>	(56,855,867)
Benefits paid	<b>(58,827,074)</b>	(56,855,867)	<b>(58,827,074)</b>	(56,855,867)	-	-
	-	-	<b>(58,827,074)</b>	(56,855,867)	<b>(58,827,074)</b>	(56,855,867)
<b>Balance at end of year</b>	<b>P337,508,573</b>	P337,626,920	<b>P2,223,485,440</b>	P2,364,725,409	<b>P1,885,976,867</b>	P2,027,098,489

Plan assets consist of the following:

	2021	2020
Deposits in banks	<b>0.00%</b>	13.81%
Debt securities	<b>74.09%</b>	68.61%
Equity Securities	<b>20.43%</b>	14.58%
Investment in Unit Investment Trust Fund	<b>4.77%</b>	2.11%
Other Assets	<b>0.71%</b>	0.89%
	<b>100.00%</b>	100.00%

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

	2021	2020
Current service cost	<b>P97,489,346</b>	P98,567,076
Interest cost	<b>38,639,614</b>	-
Interest Income of plan asset	<b>(11,033,648)</b>	-
	<b>P125,095,312</b>	P98,567,076

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

	2021	2020
Current service cost	<b>P15,870,359</b>	P16,045,803
Interest cost	<b>6,290,169</b>	-
Interest income of plan asset	<b>(1,796,175)</b>	-
	<b>P20,364,353</b>	P16,045,803

### Actuarial Assumptions

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

	<b>2021</b>	2020
Discount rate	<b>4.90%</b>	3.80%
Future salary growth	<b>4.00%</b>	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, 2021 and 2020 is 8 and 9 years, respectively.

### 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%.

	<b>June 30, 2021</b>	
	<b>1% Increase</b>	<b>1% Decrease</b>
Discount rate	<b>(P164,317,557)</b>	<b>P201,264,856</b>
Salary increase rate	<b>188,184,380</b>	<b>(156,075,570)</b>

	June 30, 2020	
	1% Increase	1% Decrease
Discount rate	(P202,072,730)	P238,802,156
Salary increase rate	221,332,176	(191,326,533)

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.

*Interest Rate Risk.* The present value of the defined benefit retirement obligation is calculated using a discount rate determined by reference to market yields to government bonds. Generally, a decrease in the interest rate of a reference government bond will increase the defined benefit retirement obligation.

*Longevity and Salary Risks.* The present value of the defined benefit retirement obligation is calculated by reference to the best estimates of: (1) the mortality of the plan participants, and (2) the future salaries of the plan participants. Consequently, increases in the life expectancy and salary of the plan participants will result in an increase in the defined benefit retirement obligation.

The Group plans to make additional funding in 2021, 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:

	<b>Note</b>	<b>June 30 2021</b>	December 31 2020
Current assets:			
Cash and cash equivalents*	11	<b>P9,808,205,249</b>	P14,072,666,089
Receivables:			
Power receivables	12	<b>3,962,088,544</b>	3,980,405,660
Due from customers	12	<b>2,480,966,180</b>	2,937,787,061
Restructured power receivables	12	<b>8,133,287</b>	22,660,698
Interest receivable	12	<b>1,118,229</b>	10,051,675
Due from officers and employees and other receivables	12	<b>170,472,362</b>	172,372,675
<b>Total current financial assets</b>		<b>16,430,983,851</b>	21,195,943,858
Noncurrent assets:			
Receivables:			
Restructured power receivables	12	<b>1,428,490,332</b>	1,428,490,332
Power receivables	12	<b>117,962,550</b>	117,962,549
Due from customers	12	<b>434,222,418</b>	433,619,636
<b>Total noncurrent financial assets</b>		<b>1,980,675,300</b>	1,980,072,517
<b>Total financial assets</b>		<b>P18,411,659,151</b>	P23,176,016,375

\*Excludes cash on hand amounting to P8,709,303 and P8,518,369 as at June 30, 2021 and December 31, 2020, respectively.

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

	<b>June 30 2021</b>	December 31 2021
Balance at beginning of the period	<b>P1,877,458,659</b>	P1,812,788,659
Provision for impairment losses on receivables during the period	<b>32,335,000</b>	64,670,000
<b>Balance at end of the period</b>	<b>P1,909,793,659</b>	P1,877,458,659

Trade and other current payables, concession fee payable, loans payable, customers' and other deposits and other current liabilities in the consolidated interim statements of financial position as at June 30, 2021 and December 31, 2020 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:

	June 30, 2021				
	Total	Neither Past Due nor Impaired	Past Due but not Impaired	Past Due and Impaired	Total
			1 to 30 Days	31 to 60 Days	More than 60 Days
<b>Cash and Cash Equivalents</b>					
Cash in banks	P6,014,029,249	P6,014,029,249	P -	P -	P -
Short-term placements	3,794,176,000	3,794,176,000	-	-	-
<b>Receivables</b>					
Power receivables	3,962,092,041	3,895,996,076	26,570,152	160,922	39,364,891
Due from customers	2,552,155,682	1,814,631,116	137,129,298	89,618,506	510,776,762
Due from officers and employees and other receivables	170,472,362	170,472,362	-	-	-
Restructured power receivables	8,133,287	8,133,287	-	-	-
Interest receivable	806,871	806,871	-	-	-
	P16,501,865,492	P15,698,244,961	P163,699,450	P89,779,428	P550,141,653
					P1,909,793,659
					P18,411,659,151
<b>December 31, 2020</b>					
		Neither Past Due nor Impaired	Past Due but not Impaired	Past Due and Impaired	Total
	Total		1 to 30 Days	31 to 60 Days	More than 60 Days
<b>Cash and Cash Equivalents</b>					
Cash in banks	P6,809,069,889	P6,809,069,889	P -	P -	P -
Short-term placements	7,263,596,200	7,263,596,200	-	-	-
<b>Receivables</b>					
Power receivables	3,981,043,368	3,908,242,597	72,800,771	-	-
Due from customers	2,994,745,900	2,200,384,932	92,391,456	138,798,140	563,171,372
Due from officers and employees and other receivables	171,734,967	171,734,967	-	-	-
Restructured power receivables	68,315,717	22,381,090	279,608	-	45,655,019
Interest receivable	10,051,675	9,733,915	-	-	317,760
	P21,298,557,716	P20,385,143,590	P165,471,835	P138,798,140	P609,144,151
					P1,877,458,659
					P23,176,016,375

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 June 30, 2021 and December 31, 2020.

d) Past Due and Impaired Accounts

Receivables with an aggregate nominal value of P1.91 billion and P1.88 billion as at June 30, 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, 2021 and December 31, 2020. As at June 30, 2021, the Group recognized total impairment allowance amounting to P1.91 billion attributable to and covers substantially all noncurrent receivables. There is no material difference between the estimated ECL provision required for the year 2021 and the P32.34 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 BOD 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, 2021 and December 31, 2020 are as follows:

		As at June 30, 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	P34,020,000,946	P34,020,000,946	P34,020,000,946	P -
Concession fee payable	5	54,319,128,352	54,319,128,352	-	54,319,128,352
Loans payable (current and noncurrent)	14	141,205,757,246	146,468,407,405	17,109,023,831	129,359,383,574
Customers' and other deposits		396,191,965	396,191,965	-	396,191,965
Other current liabilities	16	10,655,991,329	10,655,991,329	10,655,991,329	-
Other noncurrent liabilities	16	1,589,954,723	1,589,954,723	-	1,589,954,723
		<b>P242,187,024,561</b>	<b>P247,449,674,720</b>	<b>P61,785,016,106</b>	<b>P185,664,658,614</b>

\*excluding payables to government.

		As at December 31, 2020			
Note	Carrying Amount	Contractual Cash Flow	Less than 1 Year	More than 1 Year	
Non-derivative financial liabilities:					
Trade and other current payables*	15	P44,586,767,068	P44,586,767,068	P44,586,767,068	P -
Concession fee payable	5	54,319,128,352	77,181,999,704	2,885,975,289	74,296,024,415
Loans payable (current and noncurrent)	14	135,685,322,020	157,753,585,163	20,242,713,489	137,510,871,674
Customers' and other deposits		400,865,396	400,865,396	-	400,865,396
Other current liabilities	16	9,830,910,394	9,830,910,394	9,830,910,394	-
Other noncurrent liabilities	16	1,767,715,209	1,767,715,209	-	1,767,715,209
		<b>P246,590,708,439</b>	<b>P291,521,842,934</b>	<b>P77,546,366,240</b>	<b>P213,975,476,694</b>

\*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 six months ended June 30, 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:

	U.S. Dollar	Euro	NZD	JPY	Peso Equivalent
<b>Assets</b>					
Cash and cash equivalents	5,946,228	-	-	-	289,010,470
Advance payment to suppliers and contractors	120,502,366	462,599	-	-	5,883,718,372
	126,448,594	462,599	-	-	6,172,728,842
<b>Liabilities</b>					
Accounts payable and accrued expenses*	(535,239,889)	(5,219,701)	(3,261)	(5,044,205,587)	(28,534,476,210)
Net foreign currency-denominated asset (liabilities)	(408,791,295)	(4,757,102)	(3,261)	(5,044,205,587)	(22,361,747,368)

	U.S. Dollar	Euro	NZD	JPY	Peso Equivalent
<b>Assets</b>					
Cash and cash equivalents	58,312,300	-	-	-	2,802,605,763
Advance payment to suppliers and contractors	157,073,463	980,355	-	-	7,606,715,543
	215,385,763	980,355	-	-	10,409,321,306
<b>Liabilities</b>					
Accounts payable and accrued expenses*	(588,430,207)	(12,613,062)	(3,261)	(5,044,205,587)	(31,360,905,876)
Net foreign currency-denominated asset (liabilities)	(373,044,444)	(11,632,707)	(3,261)	(5,044,205,587)	(20,951,584,570)

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

The following are the closing exchange rates applied as at June 30, 2021 and December 31, 2020:

	USD	Euro	NZD	JPY
<b>2021</b>	<b>48.604</b>	<b>57.9797</b>	<b>34.2172</b>	<b>0.4395</b>
2020	48.062	58.6020	34.105	0.464

*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:

<b>June 30, 2021</b>			
	<b>Strengthening/ Weakening of the Philippine Peso</b>	<b>Effect on Profit</b>	<b>Effect on Equity</b>
U. S. Dollar	<b>+10%</b>	<b>P1,986,889,209</b>	<b>(P1,986,889,209)</b>
	<b>-10%</b>	<b>(1,986,889,209)</b>	<b>1,986,889,209</b>
JPY	<b>+10%</b>	<b>204,433,157</b>	<b>(204,433,157)</b>
	<b>-10%</b>	<b>(204,433,157)</b>	<b>204,433,157</b>
NZD	<b>+10%</b>	<b>11,158</b>	<b>(11,158)</b>
	<b>-10%</b>	<b>(11,158)</b>	<b>11,158</b>
Euro	<b>+10%</b>	<b>27,581,534</b>	<b>(27,581,534)</b>
	<b>-10%</b>	<b>(27,581,534)</b>	<b>27,581,534</b>

December 31, 2020

	Strengthening/ Weakening of the Philippine Peso	Effect on Profit	Effect on Equity
U. S. Dollar	+10%	(P135,786,680)	P135,786,680
	-10%	135,786,680	(135,786,680)
JPY	+10%	(18,186,883)	18,186,883
	-10%	18,186,883	(18,186,883)
NZD	+10%	11,122	(11,122)
	-10%	(11,122)	11,122
Euro	+10%	122,136,149	(122,136,149)
	-10%	(122,136,149)	122,136,149

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

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

#### Capital Management

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

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

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

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

The Group has to meet Debt to Equity Ratio and Debt Service Coverage Ratio required by the concession agreement. As at June 30, 2021 and December 31, 2020, the Group is in compliance with these requirements.

#### Fair Values

The Group analyzes financial instruments carried at fair value by valuation method as at June 30, 2021 and December 31, 2020. 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, 2021 and December 31, 2020, the Group's derivative financial asset and liability were measured based on Level 2 classification.

As at June 30, 2021 and December 31, 2020, 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.

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## 25. Contingencies

The Group, in the ordinary course of business, is a party to certain cases or claims under protest pending with administrative bodies or the courts, the outcome of which are not presently determinable.

### a. Civil Cases

NGCP is a defendant in an Arbitration case filed by Kalpataru Power Transmission Limited (KPTL) before the Construction Industry Arbitration Commission (CIAC) where the Arbitral Tribunal awarded damages in favor of KPTL, as follows:

PROJECT	DAMAGES		
	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:

PROJECT	RETENTION MONEY	
	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.

There are several other cases for ejectment, damages, and recovery of possession filed against the Group and pending with the different trial courts nationwide. The total estimated amount of claim for these civil cases is P74.42 million.

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.

In NGCP vs. the OIC, Provincial Assessor of South Cotabato and the Municipal Assessor of Tupi, South Cotabato, a case involving properties with assessed value of P78.89 million was dismissed on appeal by the CTA for failure to pay the tax under protest. This was brought to the Supreme Court by way of Petition for Review, docketed as G.R. No. 241105. A Reply to the Comment of Respondents to NGCP's Petition for Review dated January 3, 2019 was filed by NGCP and case is still pending.

Likewise, in the case of NGCP vs. Fatima Tenorio, et al, the CTA dismissed the petition filed by NGCP for failure to pay the tax under protest. However, since a similar case involving the same properties is also pending before the LBAA of Ilocos Sur, NGCP subsequently paid the real property tax under protest in the amount of P10.17 million. NGCP then filed another petition before the LBAA on November 5, 2018 contesting the collection and payment of the tax. The cases are still pending before the LBAA.

Also, in the case of NGCP vs. LBAA of Batangas City and Guadalupe Judy Tumaming, City Assessor of Batangas City, involving the amount of P1.40 million, the CTA denied the Motion for Reconsideration filed by NGCP for failure to pay the tax under protest. NGCP then filed Petition for Review before the Supreme Court on February 09, 2021 praying that the properties involved, subject matter of Notices of Assessment, be classified as exempt from the payment of RPT in the Assessment Roll.

With regard 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 real property tax (RPT) in the amount of P192 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.

With respect to business taxes, franchise tax and other fees and charges, NGCP has a total of five (5) cases pending before various Regional Trial Courts (RTC), one (1) pending before the CTA, one (1) pending before the Metropolitan Trial Court (MTC) and one (1) pending before the Municipal Trial Court in Cities (MTCC), in the estimated total amount of P266.9 million involved, to wit:

- a. Opol, Misamis Oriental (RTC)- P0.77 million
- b. Bacolod City (RTC)- P0.80 million
- c. Quezon City - P109.69 million (NGCP paid under protest P19.10 million)
- d. Quezon City (RTC) - P92.97 million (NGCP paid under protest P18.14 million)
- e. Isabela (RTC) - P60.61 million
- f. Tacloban (CTA) - P2.02 million
- g. Muntinlupa City (MTC) - P0.05 million
- h. Iligan City (MTCC) - P0.02 million

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.

As to the other Real Property Tax (RPT) cases, on October 12, 2020, NGCP received a copy of the CTA Decision, dated September 23, 2020, in CTA EB No. 2110 (City Assessor's Office of Valenzuela City vs. NGCP) reversing and setting aside the Decision dated August 22, 2012 of the LBAA and the October 8, 2018 Decision and May 31, 2019 Resolution of the CBAA. The CTA declared the Notice of Assessment dated October 9, 2012, as final, executory and unappealable. On October 23, 2020, NGCP filed its Motion for Reconsideration. Thereafter, NGCP received on October 23, 2020, the Statement of Account issued by the City Treasurer on the 37 machineries/transmission towers subject of the case in the total amount of P421.75 million. On October 30, 2020, NGCP wrote a letter and requested the City Treasurer and City Assessor the following: (a) refer to TRANSCO the notice of delinquency for real property tax covering years 2002 to 2008; (b) classify the 37 machineries/transmission towers, as exempt from payment of real property tax from year 2009 onwards; and (c) issue revised tax declarations on 37 machineries/transmission towers and indicate thereon that NGCP is the beneficial user of the same and to re-classify said properties from taxable to exempt.

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 at June 23, 2021, NGCP obtained three thousand four hundred fifty-four (3,454) tax exemptions covering lands, buildings and machineries located in various Cities, Municipalities, Provinces involving real property assessed value in the total amount of P9.66 billion.

As at June 23, 2021, NGCP has a total of ninety-six (96) RPT and franchise and business tax cases pending before the LBAA, CBAA, RTC, MTC, MTCC, the Court of Tax Appeals (CTA) and the Supreme Court, and thirty-nine (39) RPT notices of assessment and tax billings with no tax cases filed, or a total of one hundred thirty-five (135).

Out of the ninety-six (96) petitions still pending before the various LBAAs, CBAA, RTCs, MTC, MTCC, CTA and the Supreme Court, fifty-three (53) pertain to petition contesting the Notices of Assessment issued by the Provincial or City Assessors or Treasurers with total assessed value of P12.71 billion for RPT and P266.9 million assessment for eight (8) franchise/ business tax cases; while thirty-five (35) cases involve Payment Under Protest contesting the Statements of Account or Billings issued by the Provincial or City Treasurers in the total amount of P83.1 million, both for RPT and franchise/business tax cases. .

c. Right of Way (ROW) Expropriation Cases

Pursuant to Republic Act (R.A.) No. 9511, the Group is authorized to exercise the right of eminent 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 RTC-Pasay City on July 13, 2021. The Omnibus Motion to Withdraw Complaint and Provisional Deposit was granted by RTC-Pasay City after the hearing on July 21, 2021. NGCP will file a Partial Motion for Reconsideration regarding the interest on the provisional deposit.

As at June 30, 2021, the total number of expropriation cases filed/pending with the Courts, including Projects Under Construction (PUC) cases turned-over to the Group by the National Transmission Corporation (TRANSCO), is 1,672 with the total estimated amount involved of P5.2 Billion (based on provisional deposits).

d. Reclassification Cases

There are six (6) reclassification cases pending before the Energy Regulatory Commission (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 Regulatory Period, 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.

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 30<sup>th</sup> of each year with a penalty of fifty per centum in case of delinquency; Provided, further, that if the fees or any balance thereof are not paid within sixty days from the said date, the penalty shall be increased one per centum for each month of delinquency thereafter. On the other hand, the metering fee is being assessed by ERC based on the authority granted to NGCP as the WESM metering service provider.

The assessment is based on ERC Resolution No. 21, Series of 2007 entitled 'A Resolution Approving the Revised Schedule of ERC Fees and Charges' which provides that supervision and regulatory fees are for annual reimbursement of the expenses incurred by the ERC in the supervision of electric utilities, transmission companies and/or in the regulation or fixing of their rates. Both the supervision and regulatory fee and metering authority assessment fee are computed at one peso for each one hundred pesos or fraction thereof, of the capital stock subscribed or paid.

NGCP is paying both Fees although under protest on the ground that NGCP should be exempt from payment of these fees pursuant to Section 9 of R.A. No. 9511, which provides that NGCP's payment of 3% franchise tax shall be in lieu of, and expressly exempted from paying all other kinds of fees, taxes, and charges. The resolution of its protest may not have an impact on NGCP's revenue because the ERC considers the Supervision and Regulation Fees as part of the operating expense.

These legal issues are still pending before the Supreme Court for resolution.

g. Labor Cases

There are fifteen (15) labor cases pending with the Court of Appeals and National Labor Relations Commission filed by former NGCP employees against NGCP in different areas/regions for illegal dismissal, with prayer for reinstatement, and payment of backwages and damages; and labor cases by employees of service providers in a service contract with NGCP wherein NGCP was impleaded as co-defendant. The cases are in the stage of submission of the parties' Position Papers and Memoranda or submitted for resolution. 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 seventeen (17) NGCP CAPEX Applications pending with the ERC for approval. Due to urgency of the projects, NGCP filed the CAPEX Applications for approval considering that ERC has not yet issued NGCP's Final Determination for the 4<sup>th</sup> Regulatory Period.

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.

The Group has other possible claims from or obligations to other parties from past events and whose existence may only be confirmed by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Group.

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## **26. Franchise Tax**

As discussed in Note 1 to the consolidated interim financial statements, in consideration of the franchise and rights granted by R.A. 9511, the Group is required to pay a franchise tax equivalent to three percent (3%) of all gross receipts/actual collection derived from its operations under the franchise, in lieu of income tax and any and all taxes, duties, fees and charges of any kind, nature or description levied, established or collected on its franchise, rights, privileges, receipts, revenues and profits, and on properties used in connection with its franchise except for real property tax on real estate, buildings and personal property, exclusive of the franchise.

In view thereof, the Group's income from business activities included within the scope of its authority under Section 1 of R.A. 9511 is exempt from income tax, and consequently from withholding taxes, minimum corporate income tax (MCIT), improperly accumulated earnings tax (IAET), Value-Added Tax (VAT) and documentary stamp tax (DST). Subsequently, effective January 1, 2018, the implementation of TRAIN Law has changed the classification of NGCP from non-VAT to VAT entity which made all transactions affected therein to be subject to VAT (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 Group adopted an accounting treatment for franchise tax that upon billing to its customers, both franchise tax receivable and franchise tax payable to BIR are set-up. As such, franchise tax recovery is not recognized in the profit or loss in view of the pass-through nature of the 3% national franchise tax (see Note 15).

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## **27. Final Determination and Others**

"The Final Determination, Regulatory Reset for the NGCP for 2011 to 2015" (Final Determination) was approved by the 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 Group.

As discussed in Note 4 to the consolidated interim financial statements, the Group has signed a Concession Agreement with PSALM and TRANSCO, which covers the management and development of the transmission grid over the term of the franchise. Under the Concession Agreement, the Group is responsible for the operation, management and development of the grid, while TRANSCO continues to hold title over the transmission assets. Notwithstanding this, TRANSCO continues to be responsible for the settlement of Right of Way (ROW) claims in respect of projects that were ongoing at the time R.A. 9511 became effective, while the Group is responsible for ROW claims for projects that were initiated subsequent to the effectivity of the Act.

Hence, while the Group will incur the bulk of the costs of providing the Regulated Transmission Services over the 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 Group can bill its transmission customers for each year in the regulatory period.

With the issuance of the Order dated January 21, 2016, NGCP billed an iMAR<sub>2016</sub> of P41,653.82 million consistent with Module F of the 2006 Revised Open Access Transmission Service (OATS) Rules. As for the iMAR<sub>2016</sub> differential of P2,135.23 million, following the ERC Order dated December 19, 2016, this was collected by NGCP in 2017. The approved iMAR<sub>2016</sub> 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<sub>2020</sub> in the amount of P47,051.64 million, an increase of P3,262.59 million from the iMAR<sub>2016</sub> of P43,789.05 million, effective April 2020 billing month. However, only P300.00 million of the incremental revenue was billed in July and August 2020 billing months following its deferment in consideration of the COVID-19 pandemic situation and the issuance of the July 28, 2020 directing the suspension of the billing of the iMAR<sub>2020</sub>. As a result, there was an unbilled iMAR<sub>2020</sub> differential in the amount of P2,962.59 million.

#### *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 prudence 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 4<sup>th</sup> RP, the Group continues to undertake the implementation of CAPEX which it deems prudent and necessary and incur OPEX that is essential in its day to day operations to continuously fulfill its mandated function as the Transmission Provider.

#### *Weighted Average Cost of Capital (WACC)*

The rate of return that the Regulated Entity can earn in its investment in transmission system assets is equal to the WACC as set by the ERC during each Reset based on a market analysis of the rate of return a business in the Philippines with a similar risk profile to the Regulated Entity can be expected to earn.

In the absence of a Final Determination for the 4<sup>th</sup> RP, which should provide, among others the WACC approved by the ERC for the years 2016 to 2020, as stated in Note 20, the ERC approved an interim revenue of P43,789.05 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 P1.38 Billion and P0.15 Billion respectively as at December 31, 2020.

With the implementation of the TRAIN Law under Republic Act (R.A.) No. 10963 which took effect on January 1, 2018, Section 86 thereof, under Clause (bbb) repealed Section 9, with respect to VAT, of R.A. 9511 or the National Grid Corporation of the Philippines Franchise Act, which changes the classification of NGCP from Non-VAT to VAT entity, all transactions affected therein are made subject to VAT. Hence, effective January 1, 2018, all Input Taxes related to purchases of goods and services both for CAPEX and OPEX shall be considered as Input VAT, deductible from the Group’s Output VAT Payable pursuant to the BIR rules and regulations.

#### *Performance Incentive Scheme (PIS)*

The PIS provides the Regulated Entity an incentive to improve the quality of service provided to customers. Under the PIS, key indicators of service performance are monitored annually. Should the quality of service performance be above targets set during the Reset, the Regulated Entity can earn an incentive of up to 3% of ARR or the unsmoothed MAR. Conversely, should the quality of service fall below the targets, a penalty of up to 3% of ARR can be applied.

In the absence of a Final Determination for the 4<sup>th</sup> RP, 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 Group.

#### *Rate Arrears - Transferred Assets*

An issue that has arisen since the Draft Determination is the recovery of rate arrears in respect of sub-transmission and connection assets that are to be transferred to the RAB at the beginning of the 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 Group may be damaged or destroyed. In such cases, increase in costs incurred by the Group in addition to the maximum amounts that it is otherwise permitted to charge to its transmission customers through the MAR is allowed to be recovered through FME Pass Through charges, subject to the approval of ERC in accordance with Article X of the RTWR.

For capital expenditures (i.e., replacement with new assets), partial recovery through additional FME charges will be billed on top of the regulated charges from the time of its approval until the end of the current Regulatory Period. The remaining unrecovered cost will then form part of the RAB assets to be carried forward to the subsequent regulatory period and recovered through regulatory depreciation with reasonable rate of return based on WACC. For operating expenditures (e.g. repairs), recovery during the current regulatory period as additional OPEX, is allowable.

The assets destroyed by such FMEs are removed from the RAB in the succeeding regulatory reset, but recovery is allowable through application for “accelerated depreciation”.

Management does not consider the occurrences of FMEs as impairment indications with respect to the future economic benefits.

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 Group 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, 2021, the following FME Claims were submitted to the Commission:

<b>Year</b>	<b>FME Claim</b>	<b>Date Filed</b>
2016	Typhoon Amang in Visayas and Sabotage Incidents in Mindanao (ERC Case No. 2016-003RC)	January 12, 2016
	Typhoon Ineng in Luzon (ERC Case No. 2016-163RC)	August 22, 2016
	Typhoon Lando in Luzon and Sabotage Incidents in Mindanao (ERC Case No. 2016-179RC)	October 07, 2016
	Typhoon Nona in Luzon and Sabotage Incidents in Mindanao (ERC Case No. 2016-196RC)	December 12, 2016
2017	Typhoons Karen and Lawin in Luzon (ERC Case No. 2017-090RC)	October 12, 2017
	Typhoon Nina in Luzon (ERC Case No. 2017-116RC)	December 22, 2017
2018	Earthquake in Visayas (ERC Case No. 2018-073RC)	July 05, 2018
	Lightning and Sabotage Incidents in Luzon and Bombing Incident in Mindanao (ERC Case No. 2018-100RC)	October 02, 2018
	Typhoon Urduja, Typhoon Vinta, Typhoon Basyang and Flash Flood in Mindanao (ERC Case No. 2018-117RC)	December 11, 2018
2019	Flood due to Enhanced Southwest Monsoon Rain caused by Tropical Depression Josie in Luzon (ERC Case No. 2019-055RC)	July 19, 2019
	Typhoon Ompong in Luzon (ERC Case No. 2019-071RC)	September 13, 2019
	Typhoon Rosita in Luzon (ERC Case No. 2019-085RC)	October 29, 2019
2020	Earthquake Incidents in Mindanao, Typhoon Tisoy in Luzon and Visayas, and Typhoon Ursula in Visayas (ERC Case No. 2020-039RC)	October 30, 2020

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

The Group's excluded services, as provided in the RTWR. Currently, this includes the provision of Transmission Connection Services, and the management of Residual Sub-transmission Assets. Income from these excluded services is recognized under Connection and Residual Sub-transmission Income under "Revenues" account presented in profit or loss.

The ERC, in its Decision dated July 6, 2011 (ERC Case Nos. 2008-066RC and 2009-153 RC), approved the CC/RSTC for the years 2008 and 2009 with modification. Further, it required the filing of its application for the approval of the 2011 and 2012 CC/RSTC within 30 days from receipt of the Decision and within the same period as the filing of the MAR 2012, respectively.

In compliance with the ERC's directive in the said Decision, the Group applied for the approval of CY 2011 and 2012 CC/RSTC in December 2011. Also, the Group commenced billing customers of the ERC-approved 2009 CC/RSTC starting December 2011 billing month.

The ERC, in the same issuance, likewise directed the Group to bill the approved re-computed charges for CY 2009 as its current charges to all customers effective December 2011 billing month. These re-computed charges considered the asset reclassification made in the 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 Group, in December 2011 filed a Motion for Reconsideration (MR) which challenged the interest imposition. To date the ERC is yet to be resolved the MR.

Moreover, this ERC Decision effectively repealed the Deferment Orders issued in year 2008 covering the following nine (9) power customers, namely: Ifugao Electric Cooperative, Inc. (IFELCO), Eastern Samar Electric Cooperative, Inc. (ESAMELCO), Northern Samar Electric Cooperative, Inc. (NORSAMELCO), Leyte IV Electric Cooperative, Inc. (LEYECO IV), Davao Oriental Electric Cooperative, Inc. (DORECO), Surigao del Sur II Electric Cooperative, Inc. (SURSECO II), Mountain Province Electric Cooperative, Inc. (MOPRECO), Negros I Electric Cooperative, Inc. (NORECO I), Busco Sugar Milling Co., Inc. (BUSCO).

Consistent with the foregoing, the accounts of the nine (9) power customers were adjusted to consider the implementation of the approved CYs 2008 and 2009 CC/RSTC and the reclassification of assets.

Subsequent to this, the Group 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 Group submitted the 2011, 2012 and 2013 Re-computed CC/RSTC on September 4, 2014.

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

#### Valuation of STAs

Article V Section 2 of the Guidelines states "Asset valuation shall be the agreed value as negotiated between TRANSCO and the Qualified Distribution Utility or Qualified Consortium in a manner consistent with Section 8 of the Act. This negotiated value shall be deemed to be the Current Sound Value of the Sub-transmission Assets at the time of the acquisition of the assets."

Article V Section 2 of ERC Resolution No. 1, Series of 2009 states that "if the contract was entered after June 13, 2006, the sub-transmission assets shall be valued in reference to the Sinclair Knight Merz (SKM) valuation or any subsequent valuation as approved by the Commission." This was further amended by ERC Resolution No. 18 Series of 2009.

#### Negative Pledge

Pursuant to Section 5.03 (Negative Pledge) of the Concession Agreement, TRANSCO shall not without the Concessionaire's prior written consent, sell, dispose of, or create any lien or encumbrance over Transmission Assets except that TRANSCO shall be entitled to dispose of Sub-Transmission Assets in accordance with Section 8 of the EPIRA and retain the proceeds thereof. The Concession Fee shall be reduced in accordance with paragraph 1 (c) of Schedule 6 (Adjustment to Concession Fee) to reflect any disposals of STAs after the Bid Date, subject to Section 6.04 regarding the Commencement Fee.

**Sale of STAs**

For the year 2016 to June 30, 2021, the following sub-transmissions assets were divested by TRANSCO to Qualified Distribution Utilities:

<b>Year</b>	<b>Acquiring Distribution Utility</b>	<b>Assets Acquired</b>
2016	Zamboanga City Electric Cooperative, Inc. (ZAMCELCO)	Putik Lateral 69 KV line Recodo Lateral 69 69 KV line Pitogo-Tulungatung 69 kv line Pitogo-San jose Gusu 69 kv line
2017	Ilocos Norte Electric Cooperative, Inc. (INEC)	Currimao - San Nicolas 69kV San Nicolas - Laoag 69kV Laoag - Sarrat 69kV Sarrat - Marcos 69kV Sarrat - Piddig 69kV
	Central Pangasinan Electric Cooperative, Inc. (CENPELCO)	Mangaldan Bari S/S Site Establishment Transformer, two winding, 5 MVA 69/13.8 kV Structures and Improvements
	Isabela I Electric Cooperative, Inc. (ISELCO I)	Cauayan substation (all eqpt. and facilities incl. 15 MVA transformer)
	Mactan Electric Company (MECO)	Mactan Loadend S/S-GIS 69kV TMX/STR #20 MEPZ loadend S/S 69kV Mactan Loadend S/S #3 69kV MECO S/S 31 MECO S/S #3 69kV GIS-MECO S/S #2 69kV GIS 69kV Mactan Loadend S/S-Mulle Osmena 69kV Mactan-PAF 13.8kV Mandaue-Mactan Power Cable 69kV
2019	La Union Electric Company, Inc. (LUECO)	Buang-Poro 69kV line
<i>Forward</i>		

Year	Acquiring Distribution Utility	Assets Acquired
2020	Manila Electric Company (MERALCO)	<b>Batch 2</b> Makban-Los Banos 69kV line Makban-Calamba 69kV line Portion Calamba-CSE 13.8kV line Los Banos-IRRI/ERDB/PPRDI 13.8kV Calamba S/S Eqpt., 10 MVA transformer Los Banos S/S Eqpt., 2x10MVA transformer Makban S/S termination Eqpt.
	Manila Electric Company (MERALCO)	<b>Batch 4</b> Tayabas 115kV Switchyard incl. 100 MVA Transformer Transformer (T1) - two winding 100MVA 1 - 115kV Power Circuit Breaker 6 - 115kV Current Transformer 4 - 115kV Voltage Transformer Site Establishment - Type 3-115 1 - Switch Bay 115kV with 1 CB Feeder 1 - Switch Bay 115kV with 1 CB Feeder Protection Ternate S/S Equipment, incl. 50MVA Transformer Transformer (T3) - two winding 50MVA 3 - 115kV Power Circuit Breaker 2 - 34.5kV Power Circuit Breaker 3 - 34.5kV Potential Transformer Ancillaries - 115kV Site Establishment - Type 3-115 Site Establishment - Type 2-69 1 - Switchbay 115kV 1 & 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 Group provides the following services that utilize part of the RAB:

- Rental of facilities and equipment; and
- Co-location, antenna attachments, use of building lots and space, use of access roads, attachment of telephone cables, and tapping to AC/DC power sources.

The Group also earns revenue from provision of the following services that do not involve the use of RAB assets like Technical assistance, including assisting with the testing, commissioning, calibration and maintenance of client's facilities.

Section 1 of RA 9511 provides that NGCP may engage in any related business which maximizes utilization of assets provided that a portion of the net income derived from such undertaking utilizing assets which form part of the rate base shall be used to reduce transmission wheeling rates as determined by the ERC. Such portion of net income used to reduce the transmission wheeling rates shall not exceed 50% of the net income derived from such undertaking.

#### *Ancillary Service Charges*

The Group includes in its monthly billings to customers pass through charges for provision of Ancillary Services (AS) which are generation-related services.

Relative to this, the Group has undertaken the reconciliation of its billing and payment of AS and AS VAT for years 2009 to 2018.

The Group has also submitted its compliances with ERC on the Ancillary Services Procurement Agreements (ASPA) with National Power Corporation (NPC) and Therma Marine, Inc. (TMI) involving re-computation of AS costs and collection/refund of AS charges from/to customers pursuant to pertinent ERC Orders/Decisions.

ERC in its Order dated June 16, 2014 in ERC Case Nos. 2010-011 RC and 2010-014 RC entitled, "In the Matter of the Application for Approval of the Ancillary Services Procurement Agreement (ASPA) between the National Grid Corporation of the Philippines (NGCP) and Therma Marine, Inc. (TMI), with Prayer for Provisional Authority," directed the Group to refund its customers the amount of P12.7 million and the corresponding VAT, for a period of twelve (12) months or the amount of P1.06 million plus VAT, per month starting its next billing cycle from receipt of the Order.

Consistent with the aforesaid Order, the Group implemented the refund effective September 2014 billing month or August 26 to September 25, 2014 for a period of twelve (12) months or until August 2015 billing month (July 26 to August 25, 2015), equivalent to a monthly credit adjustment of P1.26 million refund of the AS Cost was funded by TMI deposited monthly to the Group's accounts. TMI shall also fund the AS-VAT refund after its conduct of reconciliation with the Group.

On March 15, 2016, ERC issued an Order approving the recovery of the Differential Charge for the Ancillary Service provided by NPC to NGCP representing the March 26, 2008 to October 25, 2009 billing period under ERC Case No. 2009-029 RC. Pursuant to this, the Group commenced the billing of Ancillary Service Differential Charge of P31.38/kW-month for the Luzon, Visayas, and Mindanao grids effective May 2016 billing month or April 26 to May 25, 2016 to customers who benefitted from the Ancillary Services provision from April 2008 to October 2009 billing months. As at October 2016 billing month, NGCP has fully billed and stopped the billing of AS Differential Charge in Luzon.

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## 28. Significant Transactions Related to COVID-19

### a. ERC Advisories Related to COVID-19

Initially, March 26, 2020, the Energy Regulatory Commission (ERC) released an Advisory in line with the Department of Energy's (DOE) Memorandum issued on March 18, 2020 calling the public and private power sector corporations to defer payments of obligations and dues for thirty (30) days after the conclusion of Enhanced Community Quarantine (ECQ) period on April 14, 2020, and the President's recent pronouncements, thereby directing payment of all fees due to the generation companies, Power Sector Assets and Liabilities Management Corporation (PSALM), National Power Corporation (NPC), National Transmission Corporation (TRANSCO), the Group and the Market Operator (MO) from March 15, 2020 to April 14, 2020 are extended for thirty (30) days from April 14, 2020, without interest and penalties. Thus, the Group's February 2020 power bill which is due on or before March 25, 2020 is affected by the March 26, 2020 ERC Advisory.

In view of the national government's extension of the ECQ until April 30, 2020, the ERC thereby issued on April 15, 2020 another Advisory directing electric power industry stakeholders such as:

- All Distribution Utilities (DUs) and Retail Electricity Suppliers (RES) are directed to provide a grace period to all captive and contestable customers through the deferment of their electricity bill falling due within the period of the ECQ or from March 16 to April 30, 2020, without interest, penalties, fees and other charges.
- The cumulative amount of electricity bill that was supposed to have fallen due within the ECQ period shall be amortized in four (4) equal monthly installments, payable in the four (4) succeeding billing months following the end of the ECQ. This shall be reflected as a separate item in the electricity bill due on those succeeding months, provided that the first billing due date following the ECQ shall be no earlier than May 15, 2020; and
- The Generators/Suppliers, PSALM, NPC, TRANSCO, the Group, Independent Power Producers (IPPs), Independent Power Producer Administrators (IPPAs) and the MO shall extend the same payment scheme as provided in the preceding paragraph, to the RES, DU and other customers. Availment of Prompt Payment Discount (PPD) will still be in accordance with the parties' approved supply contract.

The April 15, 2020 Advisory supersedes the March 26, 2020 Advisory of the ERC.

In this regard, NGCP's March 2020 power bill which is due on April 25, 2020 is also affected by the April 15, 2020 Advisory.

Another ERC advisory was issued on May 5, 2020 in line with the government's directive extending anew the ECQ in the National Capital Region (NCR) and some other areas until May 15, 2020. The ERC hereby amends and clarifies some items in the April 15, 2020 Advisory for the proper guidance of electric power industry stakeholders, to wit:

- DUs and RES operating in areas that continue to be under the ECQ are directed to further extend the grace period for the payment of their consumers' electricity bills falling due within the ECQ period of March 16 to May 15, 2020, without interest, penalties, fees and other charges. The directive on the amortization of payments in four (4) equal monthly installments, payable in the four (4) succeeding billing months following the end of the ECQ shall continue to be observed, but payments thereof by customers in areas covered by ECQ extension until May 15, 2020 shall commence no earlier than May 30, 2020;
- DUs and RES that are operating in areas under the General Community Quarantine (GCQ) shall retain the grace period on the due date of their consumers' electricity bills not earlier than May 15, 2020, without interest, penalties, fees and other charges. Similarly, the directive on the amortization of payments in four (4) equal monthly installments, payable in the four (4) succeeding billing months is hereby reiterated; and
- The Generators/Suppliers, PSALM, NPC, TRANSCO, the Group, IPPs and IPPAs and the MO shall extend the same payment scheme as provided in the preceding paragraph, to the RES, DU and other customers, depending on whether such customer is operating under an ECQ or GCQ. Availment of PPD will still be in accordance with the parties' approved supply contract.

In line with the recent ERC Advisory, NGCP's February and March 2020 power bills are covered by the four (4) months equal monthly installments commencing on May 25, 2020 for those under GCQ and no earlier than May 30, 2020 or June 1, 2020 for those under ECQ. Areas that are under ECQ until May 15, 2020 are NCR, Region 3 (except Aurora), Region IV-A (or CALABARZON), Pangasinan, Benguet, Baguio City, Iloilo, Cebu and Cebu City, Davao City, Davao de Oro, Albay, and Zamboanga City.

On September 11, 2020, Republic Act No. 11494 also known as "Bayanihan to Recover As One" (Bayanihan 2) was signed into law. Section 4(vv) of the said law directs all institutions providing electric services to implement a minimum of thirty day grace period for the payment of utilities falling due within the period of ECQ or Modified Enhanced Community Quarantine (MECQ) without incurring interests, penalties, and other charges, provided that after the grace period, unpaid utility bills may be settled on a staggered basis payable in not less than three (3) monthly installments without interest, penalties and other charges, subject to the rules and regulations to be issued by the regulators.

Thereafter, ERC issued an Advisory dated October 29, 2020 adopting in to Section 4(vv) of Republic Act No. 11494 with an additional directive that certain customers shall not be disconnected "on account of non-payment of bills until December 31, 2020." The Group was particularly directed to extend the same 30-day grace period, staggered payment, and no disconnection.

As at June 30, 2021, there were few customers that sought the extension of payments of utilities falling due within the period of ECQ or MECQ within their respective franchise area in accordance with Bayanihan 2.

As at June 30, 2021, no changes in assumptions in terms of estimating allowance for impairment losses considering that customers are given four (4) months to pay the deferred power bills until the effectivity of Bayanihan 2 which expires on June 30, 2021.

b. 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 Group'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 Group:

- Delay in the completion of construction of major projects including:
  - Mindanao Visayas Interconnection Project: Average Delay of nine (9) months and new Estimated Time of Completion (ETC) by December 2021;
  - North Luzon 500kV Backbone Transmission Project: Average Delay of ten (10) months and new ETC by December 2021;
  - Cebu-Negros Panay (CNP) Interconnection Project: Average Delay of eight (8) months and new ETC by December 2022;
  - Integrated Action Plan (IAP) Projects: Average Delay of five (5) months and new ETC for phase one in June 2021 and phase two in June 2022.
- 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 Group'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 Group to keep its financial position stable during the crisis, even enabling it to donate P1 billion to the Philippine Government to aid its continuing efforts to help people and communities.

The Group 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. Donation for COVID-19 Preventive Drive

On April 17, 2020, the BOD of NGCP approved the donation to the Government of the Republic of the Philippines (Philippine Government) the amount of P1.00 billion to assist in the efforts of the Philippine Government in addressing the COVID-19. Of the said P1.00 billion donation, P500.00 million shall be in the form of goods and medical equipment. The remaining balance of P500.00 million from the said P1.00 billion donation shall be for the procurement of other COVID-19 response measure as may be determined by the Office of the President of the Republic of the Philippines.

The Group distributed goods, medical equipment and other response measures to local government units and Non-stock, non-profit educational and/or charitable, religious, cultural or social welfare corporation, institution, foundation, non-government organization, trust or philanthropic organization and/or research institution or organization amounting to P1 billion as at December 31, 2020 to assist the Philippine Government in addressing the COVID-19. The donation was recognized in the consolidated interim statements of income exclusive of value-added tax.



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## **REPORT ON INDEPENDENT AUDITOR'S COMPONENTS OF FINANCIAL SOUNDNESS INDICATORS**

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

We have audited in accordance with Philippine Standards on Auditing, the consolidated financial statements of Synergy Grid & Development Phils., Inc. and Subsidiaries (the "Group") as at June 30, 2021 and December 31, 2020 and for the six months ended June 30, 2021 and 2020, and have issued our report thereon dated August 11, 2021.

Firm Regulatory Registration & Accreditation:  
PRC-BOA Registration No. 0003, valid until November 21, 2023  
SEC Accreditation No. 0003-SEC, Group A, valid for five (5) years covering the audit of 2020 to 2024  
financial statements (2019 financial statements are covered by SEC Accreditation No. 0004-FR-5)  
IC Accreditation No. 0003-IC, Group A, valid for five (5) years covering the audit of 2020 to 2024  
financial statements (2019 financial statements are covered by IC Circular Letter (CL) No. 2019-39, Transition clause)  
BSP Accreditation No. 0003-BSP, Group A, valid for five (5) years covering the audit of 2020 to 2024  
financial statements (2019 financial statements are covered by BSP Monetary Board Resolution No. 2161, Transition clause)



Our audits were made for the purpose of forming an opinion on the basic consolidated financial statements of the Company taken as a whole. The Supplementary Schedule on Financial Soundness Indicators, including their definitions, formulas, calculation, and their appropriateness or usefulness to the intended users, are the responsibility of the Company's management. These financial soundness indicators are not measures of operating performance defined by Philippine Financial Reporting Standards (PFRS) and may not be comparable to similarly titled measures presented by other companies. This schedule is presented for the purpose of complying with the Revised Securities Regulation Code Rule 68 issued by the Securities and Exchange Commission and is not a required part of the basic consolidated financial statements prepared in accordance with PFRS. The components of these financial soundness indicators have been traced to the Group's consolidated financial statements as at June 30, 2021 and December 31, 2020 and for the six months ended June 30, 2021 and 2020, and no material exceptions were noted.

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

VERNILO G. YU

Partner

CPA License No. 108798

SEC Accreditation No. 1815-A, Group A, valid until August 20, 2023

Tax Identification No. 225-454-652

BIR Accreditation No. 08-001987-035-2021

Issued June 29, 2021; valid until June 28, 2024

PTR No. MKT 8533924

Issued January 4, 2021 at Makati City

August 11, 2021

Makati City, Metro Manila

## SCHEDULE OF FINANCIAL SOUNDNESS INDICATORS

SYNERGY GRID & DEVELOPMENT PHILS., INC. & SUBSIDIARIES

As of June 30, 2021

<b>Ratios</b>	<b>Formula</b>	<b>Current Period</b>	<b>Prior Year</b>
Current ratio	$\frac{\text{Current assets}}{\text{Current liabilities}}$	<b>0.79</b>	<b>0.84</b>
Acid test ratio	$\frac{\text{Cash and cash equivalents+ marketable securities+accounts receivable}}{\text{Current liabilities}}$	<b>0.38</b>	<b>0.37</b>
Solvency ratio	$\frac{\text{Total assets}}{\text{Total liabilities}}$	<b>1.39</b>	<b>1.35</b>
Debt-to-equity ratio	$\frac{\text{Total liabilities}}{\text{Equity}}$	<b>2.55</b>	<b>2.84</b>
Asset-to-equity ratio	$\frac{\text{Total assets}}{\text{Equity}}$	<b>3.55</b>	<b>3.84</b>
Interest rate coverage ratio	$\frac{\text{Earnings before interest and tax}}{\text{Interest expense}}$	<b>5.09</b>	<b>4.28</b>
Return on equity	$\frac{\text{Net Income}}{\text{Equity}}$	<b>0.13</b>	<b>0.13</b>
Return on assets	$\frac{\text{Net Income}}{\text{Average total assets}}$	<b>0.04</b>	<b>0.03</b>
Net profit margin	$\frac{\text{Net Income}}{\text{Net sales}}$	<b>0.52</b>	<b>0.47</b>



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**REPORT OF INDEPENDENT AUDITORS  
TO ACCOMPANY SUPPLEMENTARY INFORMATION FOR FILING  
WITH THE SECURITIES AND EXCHANGE COMMISSION**

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

We have audited, in accordance with Philippine Standards on Auditing, the financial statements of Synergy Grid & Development Phils., Inc. and Subsidiaries (the “Group”) as at December 31, 2020 and 2019 and for each of the three years in the period ended December 31, 2020, on which we have rendered our report thereon dated August 11, 2021.

Our audit was made for the purpose of forming an opinion on the consolidated financial statements of the Group taken as a whole. The supplementary information included in the following accompanying additional components is the responsibility of the Group’s management. Such additional components include:

- Reconciliation of Retained Earnings Available for Dividend Declaration
- Supplementary Schedules of Annex 68-J
- Map of Conglomerate

Firm Regulatory Registration & Accreditation:  
PRC-BOA Registration No. 0003, valid until November 21, 2023  
SEC Accreditation No. 0003-SEC, Group A, valid for five (5) years covering the audit of 2020 to 2024  
financial statements (2019 financial statements are covered by SEC Accreditation No. 0004-FR-5)  
IC Accreditation No. 0003-IC, Group A, valid for five (5) years covering the audit of 2020 to 2024  
financial statements (2019 financial statements are covered by IC Circular Letter (CL) No. 2019-39, Transition clause)  
BSP Accreditation No. 0003-BSP, Group A, valid for five (5) years covering the audit of 2020 to 2024  
financial statements (2019 financial statements are covered by BSP Monetary Board Resolution No. 2161, Transition clause)



This supplementary information is presented for purposes of complying with the Revised Securities Regulation Code Rule 68, and is not a required part of the consolidated basic financial statements. Such supplementary information has been subjected to the auditing procedures applied in the audits of the basic consolidated financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic consolidated financial statements taken as a whole.

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

A handwritten signature in black ink, appearing to read 'Vernilo G. Yu', written over a horizontal line.

VERNILO G. YU

Partner

CPA License No. 108798

SEC Accreditation No. 1815-A, Group A, valid until August 20, 2023

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BIR Accreditation No. 08-001987-035-2021

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PTR No. MKT 8533924

Issued January 4, 2021 at Makati City

August 11, 2021

Makati City, Metro Manila

**SYNERGY GRID & DEVELOPMENT PHILS., INC.**  
**SCHEDULE OF RECONCILIATION OF RETAINED EARNINGS (DEFICIT)**  
**AVAILABLE FOR DIVIDEND DECLARATION**  
**FOR THE YEAR ENDED DECEMBER 31, 2020**

<b>Unappropriated Retained Earnings (Deficit), as adjusted, January 1, 2020</b>	<b>(P41,727,325)</b>
<b>Net loss based on the face of AFS</b>	<b>(1,990,042)</b>
<b>Less: Non-actual/unrealized income net of tax</b>	
Equity in net income of associate/ joint venture	-
Unrealized foreign exchange gain - net (except those attributable to Cash and Cash Equivalents)	-
Fair value adjustments (M2M gains)	-
Fair value adjustment of Investment Property resulting to gain Adjustment due to deviation from PFRS/GAAP-gain	-
Other unrealized gains or adjustments to the retained earnings as a result of certain transactions accounted for under the PFRS	-
Deferred income tax benefit for the year	-
<b>Add: Non-actual losses</b>	
Depreciation on revaluation increment (after tax)	-
Adjustment due to deviation from PFRS/GAAP - loss	-
Loss on fair value adjustment of investment property (after tax)	-
<b>Net Loss Actual/Realized</b>	<b>(1,990,042)</b>
Add (Less):	
Dividend declaration during the year	-
Appropriation of retained earnings during the year	-
Reversal of appropriations	-
Effects of prior period adjustments	-
Treasury shares	-
Sub-total	-
<b>Unappropriated Retained Earnings (Deficit), as adjusted, December 31, 2020</b>	<b>(P43,717,367)</b>

**SYNERGY GRID & DEVELOPMENT PHILS., INC. and SUBSIDIARIES**  
**SCHEDULE A. FINANCIALS ASSETS**

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Name of Issuing entity and association of each issue (i)	Number of shares or principal amount of bonds and notes	Amount shown in the balance sheet (ii)	Valued based on market quotation at balance sheet date (iii)	Income received and accrued
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**NOT APPLICABLE**

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**SYNERGY GRID & DEVELOPMENT PHILS., INC. and SUBSIDIARIES****SCHEDULE B. AMOUNTS RECEIVABLE FROM DIRECTORS, OFFICERS, EMPLOYEES, RELATED PARTIES AND PRINCIPAL STOCKHOLDERS (OTHER THAN AFFILIATES).**

Name and Designation of debtor (i)	Balance at beginning of period	Additions	Amounts collected (ii)	Amounts written off (iii)	Current	Not Current	Balance at end of period
Due from Officers and Employees	P11,897,633.08	P13,273,023.15	P14,183,486.65	-	P2,839,605.23	P8,147,564.35	P10,987,169.58
Advances to Officers and Employees	52,630,683.81	243,966,038.78	240,037,980.97	-	19,485,229.72	37,073,511.90	56,558,741.62
<b>TOTAL</b>	<b>P64,528,316.89</b>	<b>P5257,239,061.93</b>	<b>P254,221,467.62</b>	<b>-</b>	<b>P22,324,834.95</b>	<b>45,221,076.25</b>	<b>P67,545911.20</b>

**SYNERGY GRID & DEVELOPMENT PHILS., INC. and SUBSIDIARIES**

**SCHEDULE C. AMOUNTS RECEIVABLE FROM RELATED PARTIES WHICH ARE ELIMINATED DURING THE CONSOLIDATION OF SEPARATE FINANCIAL STATEMENTS**

Name and Designation of debtor	Balance at beginning of period	Additions	Amounts collected (i)	Amounts written off (ii)	Current	Not Current	Balance at end of period
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**NOT APPLICABLE**

**SYNERGY GRID & DEVELOPMENT PHILS., INC. and SUBSIDIARIES**  
**SCHEDULE D. INTANGIBLE ASSETS - OTHER ASSETS**

Description (i)	Beginning balance	Additions at cost (ii)	Charged to cost and expenses	Charged to other accounts	Other changes additions (deductions) (iii)	Ending balance
Intangible Assets	P267,754,728,000	P18,489,691,842	P4,407,276,749	P -	P -	P281,837,143,093

**SYNERGY GRID & DEVELOPMENT PHILS., INC.  
and SUBSIDIARIES**

**SCHEDULE E. LONG TERM DEBT**

Title of Issue and type of obligation (i)	Lender	Outstanding Balance	Amount shown under caption "Current portion of long-term debt" in related balance sheet (ii)	Amount shown under caption "Long-Term Debt" in related balance sheet (iii)	Interest Rates	Number of Periodic Installments
Long Term Debt	Security Bank Corporation, Land Bank of the Philippines, Philippine National Bank, Metrobank	P13,275,000,000.00	P 2,950,000,000.00	P10,325,000,000.00	7.1692% (Tranche A) and 6.2456% (Tranche B)	10 years; Semi-annual
Long Term Debt	Asia United Bank, Maybank Philippines Inc., Philippine National Bank, Security Bank Corporation	10,500,000,000.00	2,100,000,000.00	8,400,000,000.00	6.779%	10 years; Semi-annual
Long Term Debt	Land Bank of the Philippines, Philippine National Bank, Maybank, Union Bank of the Philippines	9,750,000,000.00	1,500,000,000.00	8,250,000,000.00	5.1835% (Tranche A), 4.798% (Tranche B and D), 5.2625% (Tranche C)	10 years; Semi-annual
Long Term Debt	Land Bank of the Philippines, Philippine National Bank, Security Bank Corporation, Union Bank of the Philippines, BDO Unibank, Inc.	12,750,000,000.00	1,700,000,000.00	11,050,000,000.00	4.798% (Tranche A and B), 5.8958% (Tranche C) and 5.0639% (Tranche D)	10 years; Semi-annual
Long Term Debt	BDO Unibank, Inc.	8,500,000,000.00	1,000,000,000.00	7,500,000,000.00	5.689%	10 years; Semi-annual
Long Term Debt	Philippine National Bank	4,250,000,000.00	500,000,000.00	3,750,000,000.00	5.525%	10 years; Semi-annual
Long Term Debt	Bank of the Philippine Islands	4,500,000,000.00	250,000,000.00	4,250,000,000.00	6.624%	10 years; Semi-annual
Long Term Debt	Land Bank of the Philippines	4,375,000,000.00	375,000,000.00	4,000,000,000.00	6.210%	10 years; Semi-annual
Long Term Debt	China Banking Corporation	6,300,000,000.00	350,000,000.00	5,950,000,000.00	6.483%	10 years; Semi-annual
Long Term Debt	Bank of Commerce	3,420,000,000.00	190,000,000.00	3,230,000,000.00	5.424%	10 years; Semi-annual
Long Term Debt	MUFG Bank Ltd	1,000,000,000.00	400,000,000.00	600,000,000.00	6.768%	5 years; Semi-annual
Long Term Debt	Mizuho Banking Ltd	675,000,000.00	270,000,000.00	405,000,000.00	6.842%	5 years; Semi-annual
Long Term Debt	Security Bank Corporation	1,850,000,000.00	100,000,000.00	1,750,000,000.00	5.922%	10 years; Semi-annual
Long Term Debt	Sumitomo Mitsui Banking	1,200,000,000.00	400,000,000.00	800,000,000.00	7.007%	5 years; Semi-annual
Long Term Debt	BDO Unibank, Inc.	9,500,000,000.00	500,000,000.00	9,000,000,000.00	5.315%	10 years; Semi-annual
Long Term Debt	BDO Unibank, Inc.	4,750,000,000.00	250,000,000.00	4,500,000,000.00	5.015%	10 years; Semi-annual

Forward

Title of Issue and type of obligation (i)	Lender	Outstanding Balance	Amount shown under caption "Current portion of long-term debt" in related balance sheet (ii)	Amount shown under caption "Long-Term Debt" in related balance sheet (iii)	Interest Rates	Number of Periodic Installments
Long Term Debt	China Banking Corporation	4,625,000,000.00	250,000,000.00	4,375,000,000.00	6.391%	10 years; Semi-annual
Long Term Debt	Philippine National Bank	4,625,000,000.00	250,000,000.00	4,375,000,000.00	5.922%	10 years; Semi-annual
Long Term Debt	Land Bank of the Philippines	2,660,000,000.00	140,000,000.00	2,520,000,000.00	5.227%	10 years; Semi-annual
Long Term Debt	Land Bank of the Philippines	4,095,000,000.00	210,000,000.00	3,885,000,000.00	4.842%	10 years; Semi-annual
Long Term Debt	BANK OF CHINA LIMITED	2,500,000,000.00		2,500,000,000.00	4.924%	5 years; Semi-annual
Long Term Debt	BDO Unibank, Inc.	3,960,000,000.00	40,000,000.00	3,920,000,000.00	4.189%	10 years; Semi-annual
Long Term Debt	BDO Unibank, Inc.	5,940,000,000.00	60,000,000.00	5,880,000,000.00	3.122%	10 years; Semi-annual
Long Term Debt	China Banking Corporation	3,000,000,000.00	45,000,000.00	2,955,000,000.00	4.250%	10 years; Semi-annual
Long Term Debt	Mizuho Banking Ltd	1,000,000,000.00		1,000,000,000.00	3.850%	5 years; Semi-annual
Long Term Debt	MUFG Bank Ltd	1,000,000,000.00		1,000,000,000.00	4.900%	5 years; Semi-annual
Long Term Debt	Security Bank Corporation	4,000,000,000.00	40,000,000.00	3,960,000,000.00	4.986%	10 years; Semi-annual
Long Term Debt	Philippine National Bank	5,000,000,000.00	1,000,000,000.00	4,000,000,000.00	4.868%	5 years; Semi-annual
Long Term Debt	China Banking Corporation	3,000,000,000.00	45,000,000.00	2,955,000,000.00	4.250%	10 years; Semi-annual
Total		P 142,000,000,000.00	P14,915,000,000.00	P127,085,000,000.00		

**SYNERGY GRID & DEVELOPMENT PHILS., INC. and SUBSIDIARIES**

**SCHEDULE F. INDEBTEDNESS TO RELATED PARTIES (LONG TERM LOANS FROM RELATED PARTIES)**

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Name of Related Parties (i)	Balance at beginning of period	Balance at end of period (ii)
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**NOT APPLICABLE**

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**SYNERGY GRID & DEVELOPMENT PHILS., INC. and SUBSIDIARIES**  
**SCHEDULE G. GUARANTEES OF SECURITIES OF OTHER ISSUERS**

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Name of issuing entity of securities guaranteed by the company for which this statement is filed	Title of issue of each class of securities guaranteed	Total amount guaranteed and outstanding (i)	Amount owned by person for which statement is filed	Nature of guarantee (ii)
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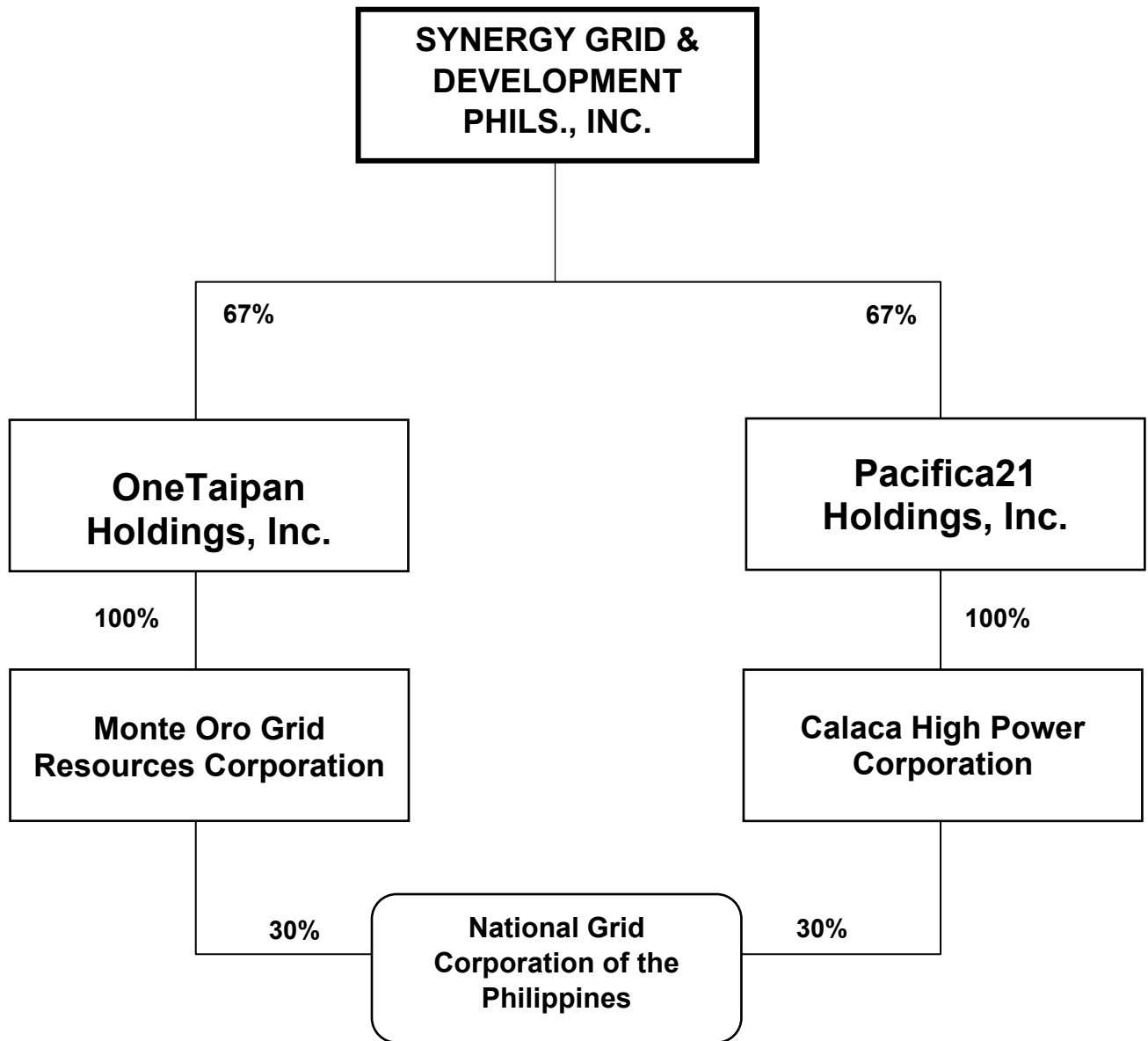
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**NOT APPLICABLE**

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**SYNERGY GRID & DEVELOPMENT PHILS., INC. and SUBSIDIARIES**  
**SCHEDULE H. CAPITAL STOCK**

Title of Issue (2)	Number of Shares authorized	Number of shares issued and outstanding at shown under related balance sheet caption	Number of shares reserved for options, warrants, conversion and other rights	Number of shares held by affiliates (3)	Directors, officers and employees	Others
Common Shares	<b>5,000,000,000</b>	4,149,866,000	-	-	4,139,232,753	10,633,247





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Email ph-inquiry@kpmg.com

## REPORT OF INDEPENDENT AUDITORS

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

### *Opinion*

We have audited the financial statements of Synergy Grid & Development Phils., Inc. and Subsidiaries (the “Group”), which comprise the consolidated statements of financial position as at December 31, 2020 and 2019, and the consolidated statements of income, consolidated statements of comprehensive income, consolidated statements of changes in equity and consolidated statements of cash flows for each of the three years in the period ended December 31, 2020, and notes, comprising significant accounting policies and other explanatory information.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Company as at December 31, 2020 and 2019, and its consolidated financial performance and its consolidated cash flows for each of the three years in the period ended December 31, 2020, in accordance with Philippine Financial Reporting Standards (PFRSs).

### *Basis for Opinion*

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

Firm Regulatory Registration & Accreditation:  
PRC-BOA Registration No. 0003, valid until November 21, 2023  
SEC Accreditation No. 0003-SEC, Group A, valid for five (5) years covering the audit of 2020 to 2024  
financial statements (2019 financial statements are covered by SEC Accreditation No. 0004-FR-5)  
IC Accreditation No. 0003-IC, Group A, valid for five (5) years covering the audit of 2020 to 2024  
financial statements (2019 financial statements are covered by IC Circular Letter (CL) No. 2019-39, Transition clause)  
BSP Accreditation No. 0003-BSP, Group A, valid for five (5) years covering the audit of 2020 to 2024  
financial statements (2019 financial statements are covered by BSP Monetary Board Resolution No. 2161, Transition clause)



### *Emphasis of Matter*

We draw attention to Notes 2 and 6 to the consolidated financial statements which discussed that in addition to the previous financial statements issued on April 12, 2021, for which we expressed an unmodified opinion on the same date, the Group issues these consolidated financial statements as at December 31, 2020 and 2019 to reflect the effects of the Share Swap Transaction which is considered to be a business combination of entities under common control and accounted for retrospectively using the pooling of interests 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. Our opinion is not modified in respect of this matter. These consolidated financial statements were prepared by the Group to comply with the registration requirements of the Securities and Exchange Commission for the Group's planned follow-on offering of its shares.

### *Key Audit Matters*

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

#### *Accounting for Intangible Asset*

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

#### *The Risk*

The Group has Intangible assets amounting to P267.63 billion as at December 31, 2020 which mainly consists of assets related to the transmission projects pursuant to the Concession Agreement entered into by the Group with PSALM and TRANSCO. The accounting for intangible assets involves significant management judgement particularly in the determination of the completeness and appropriateness of the costs recognized related to approved capital expenditures, assessment of work completion and allocation of related costs that need to be capitalized in accordance with IFRIC 12, *Service Concession Arrangements*. Moreover, due to the materiality of intangible asset in the consolidated financial statements, it is deemed as one of our key audit matters.

#### *Our response*

Our audit procedures included:

- We assessed the operating effectiveness of key controls in respect to the appropriateness of completeness of the costs recognized related to approved capital expenditures;
- We assessed whether the Group's capitalization of intangible asset is in accordance with IFRIC12 by obtaining and reviewing sample construction contracts;
- We performed cut-off testing to check whether transactions were recorded in the appropriate accounting period by checking the transactions subsequent to year end within the relevant period and verifying contracts, work status and other relevant documentation on a sample basis.
- We have also evaluated the appropriateness and adequacy of the presentation and the relevant disclosures in the consolidated financial statements.



### *Valuation of Goodwill*

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

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

### *Our response*

Our procedures included:

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

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

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

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

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

### *Auditors' Responsibilities for the Audit of the Consolidated Financial Statements*

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



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

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

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

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



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

The engagement partner on the audit resulting in this independent auditors' report is Mr. Vernilo G. Yu.

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

VERNILO G. YU

Partner

CPA License No. 108798

SEC Accreditation No. 1815-A, Group A, valid until August 20, 2023

Tax Identification No. 225-454-652

BIR Accreditation No. 08-001987-35-2018

Issued September 20, 2018; valid until September 19, 2021

PTR No. MKT 8533924

Issued January 4, 2021 at Makati City

August 11, 2021

Makati City, Metro Manila

SYNERGY GRID & DEVELOPMENT PHILS., INC.  
(formerly UEM Development Phils., Inc.)

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

**STATEMENT OF MANAGEMENT'S RESPONSIBILITY  
FOR FINANCIAL STATEMENTS**

The management of Synergy Grid & Development Phils, Inc and Subsidiaries (the "Group"), is responsible for the preparation and fair presentation of the consolidated financial statements including the schedule attached therein, as at December 31, 2020 and 2019 and for each of the three years in the period ended December 31, 2020, in accordance with the prescribed financial reporting framework indicated therein, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

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

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

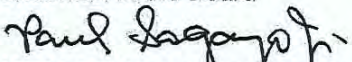
The Board of Directors reviews and approves the consolidated financial statements including the schedule attached therein and submits the same to the Stockholders.

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



**HENRY SY, JR.**

Chairman of the Board



**ATTY. PAUL P. SAGAYO, JR.**


President



**MA. THERESITA YULO**  
Treasurer / Comptroller

Signed this 11<sup>th</sup> day of August 2021

Doc. No. 86 ;  
Page No. 19 ;  
Book No. VIII ;  
Series of 2021.



**IAN DENIS U. CANOY**  
Notary Public for the Cities of Pasig, San Juan  
And Municipality of Pateros  
Commission until 31 December 2021\*  
\*as extended under Supreme Court B.M. no. 3795  
2801 Discovery Center 25 ADB Ave., Ortigas Center Pasig City  
APPT. No. 143 (2019-2020) Roll No. 70912  
PTR No. 6514961 01-13-2021, Pasig City  
IBP No. 135440 12-27-2020; RSM  
MCLE Compliance No. VI-025508 04-15-2019

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

December 31			
	<i>Note</i>	2020 (As restated - Note 6)	2019 (As restated - Note 6)
<b>ASSETS</b>			
<b>Noncurrent Assets</b>			
Intangible asset - net	5, 8, 26	<b>P267,754,728,000</b>	P234,827,667,173
Goodwill	9	<b>10,471,611,069</b>	10,471,611,069
Property and equipment - net	10	<b>3,974,895,999</b>	4,175,934,498
Receivables - net of current portion	12, 24	<b>102,613,858</b>	169,437,492
Other noncurrent assets		<b>146,516,598</b>	159,805,360
<b>Total Noncurrent Assets</b>		<b>282,450,365,524</b>	249,804,455,592
<b>Current Assets</b>			
Cash and cash equivalents	11, 24	<b>14,081,184,458</b>	16,015,412,510
Receivables - net	12, 24	<b>13,577,647,415</b>	9,186,437,574
Prepaid expenses and other current assets	13	<b>34,502,973,308</b>	32,393,413,283
<b>Total Current Assets</b>		<b>62,161,805,181</b>	57,595,263,367
		<b>P344,612,170,705</b>	P307,399,718,959
<b>LIABILITIES AND EQUITY</b>			
<b>Noncurrent Liabilities</b>			
Loans payable - net of current portion	14, 24	<b>P122,503,864,258</b>	P116,623,893,513
Retirement benefits liability	22	<b>2,027,098,489</b>	1,615,865,337
Customers' and other deposits	24	<b>400,865,396</b>	345,632,345
Concession fee payable	5, 24	<b>54,319,128,352</b>	54,319,128,352
Other noncurrent liabilities	16, 24	<b>1,767,715,209</b>	1,842,270,291
<b>Total Noncurrent Liabilities</b>		<b>181,018,671,704</b>	174,746,789,838
<b>Current Liabilities</b>			
Trade and other current payables	15, 24, 25	<b>50,931,389,510</b>	34,563,889,487
Current portion of loans payable	14, 24	<b>13,181,457,762</b>	11,544,872,835
Other current liabilities	16, 24	<b>9,830,910,394</b>	8,205,280,822
<b>Total Current Liabilities</b>		<b>73,943,757,666</b>	54,314,043,144
<b>Total Liabilities</b>		<b>254,962,429,370</b>	229,060,832,982
<b>Equity</b>			
Capital stock	6, 17	<b>4,149,866,000</b>	4,149,866,000
Additional paid-in capital	6	<b>77,907,600,000</b>	77,907,600,000
Remeasurement losses on defined benefit liability	6, 22	<b>(151,970,509)</b>	(77,626,091)
Equity adjustments from common control transactions	6	<b>(73,359,171,000)</b>	(73,359,171,000)
Retained earnings	6	<b>55,684,873,796</b>	46,290,068,929
<b>Equity Attributable to Equity Holders of the Parent Company</b>		<b>64,231,198,287</b>	54,910,737,838
<b>Non-controlling interests</b>	6, 7	<b>25,418,543,048</b>	23,428,148,139
<b>Total Equity</b>		<b>89,649,741,335</b>	78,338,885,977
		<b>P344,612,170,705</b>	P307,399,718,959

*See Notes to the Consolidated Financial Statements.*

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

<b>Years Ended December 31</b>				
	<b>Note</b>	<b>2020</b> (As restated - Note 6)	<b>2019</b> (As restated - Note 6)	<b>2018</b> (As restated - Note 6)
<b>REVENUES - Net</b>	<b>19</b>	<b>P48,606,604,103</b>	P45,396,541,091	P45,402,003,003
<b>EXPENSES</b>				
Amortization of intangible asset	8	<b>8,406,714,719</b>	8,157,650,518	7,903,044,793
Salaries, wages and employee benefits	20, 22	<b>4,433,624,640</b>	4,407,683,266	4,227,226,405
Repairs and maintenance		<b>1,320,829,151</b>	1,532,957,490	981,812,715
Donation for COVID-19 preventive drive	23	<b>942,846,200</b>	-	-
Depreciation	3, 10	<b>670,689,097</b>	681,318,726	503,209,167
Supervision and regulatory fees		<b>468,433,750</b>	468,433,750	468,433,750
Insurance		<b>455,288,210</b>	423,020,050	414,608,447
Security and janitorial		<b>434,804,117</b>	461,498,526	634,206,132
Communication, light and water		<b>340,727,501</b>	423,851,009	386,515,876
Public relation and corporate social responsibility		<b>321,477,089</b>	274,354,917	332,910,947
Outside services		<b>236,634,990</b>	159,432,787	168,388,175
Transportation and travel		<b>187,711,570</b>	344,417,903	401,212,596
Supplies and tools		<b>185,577,196</b>	184,154,787	199,786,541
Representation and entertainment		<b>168,342,240</b>	102,374,393	135,303,095
Fuel and oil		<b>101,473,574</b>	152,464,219	186,110,684
Rent	3, 21	<b>98,900,798</b>	96,905,076	276,442,303
Provision for impairment losses on receivables	12	<b>64,670,000</b>	64,670,000	64,670,000
Taxes and licenses		<b>66,569,533</b>	69,089,158	44,900,342
Professional fees		<b>69,326,446</b>	48,025,531	48,107,426
Meetings and conferences		<b>20,012,441</b>	65,184,606	130,629,768
Advertising		<b>18,637,731</b>	16,833,404	22,360,371
Director's fee		<b>15,000,000</b>	15,000,000	15,000,000
Charitable contributions		<b>1,542,853</b>	9,568,172	9,119,962
Filing fees		<b>1,283,162</b>	2,001,000	896,388
Other taxes		-	-	100,635,380
Miscellaneous		<b>11,464,088</b>	18,179,668	16,639,161
		<b>19,042,581,096</b>	18,179,068,956	17,672,170,424
<b>INCOME FROM OPERATIONS</b>		<b>29,564,023,007</b>	27,217,472,135	27,729,832,579
<b>OTHER CHARGES - Net</b>				
Interest expense	3, 5, 14	<b>(6,556,328,207)</b>	(7,261,836,624)	(6,640,204,984)
Interest income	11	<b>270,383,237</b>	349,446,802	280,621,789
Foreign exchange gain (loss) - net	24	<b>311,911,697</b>	(194,617,922)	(423,555,759)
Bank and finance charges	14	<b>(223,957,247)</b>	(186,535,769)	(164,938,652)
Loss on disposal of property and equipment		<b>(1,316,231)</b>	(7,826,041)	(178,175)
Miscellaneous income		<b>71,874,913</b>	105,249,902	163,542,159
		<b>(6,127,431,838)</b>	(7,196,119,652)	(6,784,713,622)
<b>CONSTRUCTION REVENUE AND COSTS</b>				
Construction revenue		<b>41,236,872,447</b>	32,297,776,306	29,453,220,324
Construction costs		<b>(41,236,872,447)</b>	(32,297,776,306)	(29,453,220,324)
		-	-	-

Forward

<b>Years Ended December 31</b>				
	<b>2020</b>	2019	2018	
	(As restated - Note 6)	(As restated - Note 6)	(As restated - Note 6)	
<b>Note</b>				
<b>NET INCOME BEFORE TAX</b>	<b>P23,436,591,169</b>	P20,021,352,483	P20,945,118,957	
<b>INCOME TAX EXPENSE</b>	<b>799,448</b>	1,121,272	157,979	
<b>NET INCOME</b>	<b>P23,435,791,721</b>	P20,020,231,211	P20,944,960,978	
<b>Attributable to:</b>				
Equity holders of the Parent Company	<b>P9,394,804,867</b>	P8,042,102,764	P8,407,746,106	
Non-controlling interests	<b>14,040,986,854</b>	11,978,128,447	12,537,214,872	
	<b>P23,435,791,721</b>	P20,020,231,211	P20,944,960,978	
<b>BASIC AND DILUTED EARNINGS PER SHARE</b>	<b>28</b>	<b>P2.26</b>	P1.94	P2.03

*See Notes to the Consolidated Financial Statements.*

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

	Note	Years Ended December 31		
		2020 (As restated - Note 6)	2019 (As restated - Note 6)	2018 (As restated - Note 6)
<b>NET INCOME</b>		<b>P23,435,791,721</b>	P20,020,231,211	P20,944,960,978
<b>OTHER COMPREHENSIVE INCOME (LOSS)</b>				
<i>Item that will never be reclassified to profit or loss</i>				
Remeasurement gain (losses) on defined benefit liability	22	(184,936,363)	(197,886,544)	90,115,299
<i>Item that can be reclassified to profit or loss</i>				
Hedging reserve		-	-	125,685,759
<b>OTHER COMPREHENSIVE INCOME (LOSS)</b>		<b>(184,936,363)</b>	(197,886,544)	215,801,058
<b>TOTAL COMPREHENSIVE INCOME</b>		<b>P23,250,855,358</b>	P19,822,344,667	P21,160,762,036
<b>Attributable to:</b>				
Equity holders of the Parent Company		<b>P9,320,460,449</b>	P7,962,552,373	P8,494,498,131
Non-controlling interests		<b>13,930,394,909</b>	11,859,792,294	12,666,263,905
		<b>P23,250,855,358</b>	P19,822,344,667	P21,160,762,036

See Notes to the Consolidated Financial Statements.

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

	Note	Capital Stock (Note 17)	Additional Paid-in Capital	Equity Adjustments From Common Control Transactions	Remeasurement Gains (Losses) On Defined Benefit Liability	Retained Earnings	Total	Non-controlling Interests	Total Equity
<b>As at January 1, 2020, As Previously Reported</b>		P49,466,000	P -	P -	P -	(P41,720,819)	P7,745,181	P -	P7,745,181
Share swap transaction	6	4,100,400,000	77,907,600,000	-	-	-	82,008,000,000	-	82,008,000,000
Effect of common control business combination	6	-	-	(73,359,171,000)	(77,626,091)	46,331,789,748	(27,105,007,343)	23,428,148,139	(3,676,859,204)
<b>As at January 1, 2020, As Restated</b>		4,149,866,000	77,907,600,000	(73,359,171,000)	(77,626,091)	46,290,068,929	54,910,737,838	23,428,148,139	78,338,885,977
<b>Total Comprehensive Income</b>									
Net income for the year		-	-	-	-	9,394,804,867	9,394,804,867	14,040,986,854	23,435,791,721
Other comprehensive income:									
Remeasurement loss on defined benefit liability	22	-	-	-	(74,344,418)	-	(74,344,418)	(110,591,945)	(184,936,363)
<b>Total Comprehensive Income for the Year</b>		-	-	-	(74,344,418)	9,394,804,867	9,320,460,449	13,930,394,909	23,250,855,358
<b>Transactions with Owners of the Group</b>									
Dividends	17	-	-	-	-	-	-	(11,940,000,000)	(11,940,000,000)
<b>Balance at December 31, 2020</b>		P4,149,866,000	P77,907,600,000	(P73,359,171,000)	(P151,970,509)	P55,684,873,796	P64,231,198,287	P25,418,543,048	P89,649,741,335

See Notes to the Consolidated Financial Statements.

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

	Note	Capital Stock (Note 17)	Additional Paid-in Capital	Equity Adjustments From Common Control Transactions	Remeasurement Gains (Losses) On Defined Benefit Liability	Retained Earnings	Total	Non-controlling Interests	Total Equity
As at January 1, 2019, As Previously Reported		P49,466,000	P -	P -	P -	(P43,668,565)	P5,797,435	P -	P5,797,435
Share swap transaction	6	4,100,400,000	77,907,600,000	-	-	-	82,008,000,000	-	82,008,000,000
Effect of common control business combination	6	-	-	(73,359,171,000)	1,924,300	38,291,634,730	(35,065,611,970)	26,586,490,845	(8,479,121,125)
As at January 1, 2019, As Restated		4,149,866,000	77,907,600,000	(73,359,171,000)	1,924,300	38,247,966,165	46,948,185,465	26,586,490,845	73,534,676,310
Total Comprehensive Income									
Net income for the year		-	-	-	-	8,042,102,764	8,042,102,764	11,978,128,447	20,020,231,211
Other comprehensive income:									
Remeasurement loss on defined benefit liability	22	-	-	-	(79,550,391)	-	(79,550,391)	(118,336,153)	(197,886,544)
Total Comprehensive Income for the Year		-	-	-	(79,550,391)	8,042,102,764	7,962,552,373	11,859,792,294	19,822,344,667
Transactions with Owners of the Group									
Dividends	17	-	-	-	-	-	-	(15,018,135,000)	(15,018,135,000)
Balance at December 31, 2019		P4,149,866,000	P77,907,600,000	(P73,359,171,000)	(P77,626,091)	P46,290,068,929	P54,910,737,838	P23,428,148,139	P78,338,885,977

See Notes to the Consolidated Financial Statements.

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

	Note	Capital Stock (Note 17)	Additional Paid-in Capital	Equity Adjustments From Common Control Transactions	Remeasurements Gains (Losses) On Defined Benefit Liability	Hedging Reserve	Retained Earnings	Total	Non-controlling Interests	Total Equity
As at January 1, 2018, As Previously Reported		P49,466,000	P -	P -	P -	P -	(P42,778,945)	P6,687,055	P -	P6,687,055
Share swap transaction	6	4,100,400,000	77,907,600,000	-	-	-	-	82,008,000,000	-	82,008,000,000
Effect of common control business combination	6	-	-	(73,359,171,000)	(34,302,050)	(50,525,675)	29,882,999,004	(43,560,999,721)	31,872,583,430	(11,688,416,291)
As at January 1, 2018, As Restated		4,149,866,000	77,907,600,000	(73,359,171,000)	(34,302,050)	(50,525,675)	29,840,220,059	38,453,687,334	31,872,583,430	70,326,270,764
Total Comprehensive Income										
Net income for the period		-	-	-	-	-	8,407,746,106	8,407,746,106	12,537,214,872	20,944,960,978
Other comprehensive income:										
Remeasurement gain on defined benefit liability	22	-	-	-	36,226,350	-	-	36,226,350	53,888,949	90,115,299
Hedging reserve		-	-	-	-	50,525,675	-	50,525,675	75,160,084	125,685,759
Total Comprehensive Income for the Period		-	-	-	36,226,350	50,525,675	8,407,746,106	8,494,498,131	12,666,263,905	21,160,762,036
Transactions with Owners of the Group										
Dividends	17	-	-	-	-	-	-	-	(17,915,000,000)	(17,915,000,000)
Transaction costs		-	-	-	-	-	-	-	(37,356,490)	(37,356,490)
Balance at December 31, 2018		P4,149,866,000	P77,907,600,000	(P73,359,171,000)	P1,924,300	P -	P38,247,966,165	P46,948,185,465	P26,586,490,845	P73,534,676,310

See Notes to the Consolidated Financial Statements.

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

<b>Years Ended December 31</b>				
	<b>Note</b>	<b>2020</b> (As restated - Note 6)	<b>2019</b> (As restated - Note 6)	<b>2018</b> (As restated - Note 6)
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>				
Net income before tax		<b>P23,436,591,169</b>	P20,021,352,483	P20,945,118,957
Adjustments for:				
Amortization of intangible asset	8	<b>8,406,714,719</b>	8,157,650,518	7,903,044,793
Interest expense	5, 14	<b>6,556,328,207</b>	7,261,836,624	6,640,204,984
Depreciation	10	<b>670,689,097</b>	681,318,726	503,209,167
Interest income	11	<b>(270,383,237)</b>	(349,446,802)	(280,621,789)
Retirement benefits cost	22	<b>243,511,284</b>	355,645,631	132,424,794
Provision for impairment losses on receivables	12	<b>64,670,000</b>	64,670,000	64,670,000
Unrealized foreign exchange loss	24	<b>16,455,712</b>	160,427,043	377,690,655
Net loss on disposal of property and equipment		<b>1,316,231</b>	7,826,041	-
Impairment of creditable withholding tax		<b>3,565,461</b>	668,436	935,967
Operating income before working capital changes		<b>39,129,458,643</b>	36,361,948,700	36,286,677,528
Decrease (increase) in:				
Receivables		<b>(4,789,805,083)</b>	887,466,500	(1,222,273,699)
Prepaid expenses and other current assets		<b>(2,177,997,718)</b>	89,166,729	(3,699,881,115)
Increase (decrease) in:				
Trade and other current payables		<b>16,325,618,358</b>	2,270,993,566	9,295,772,548
Other current liabilities		<b>1,375,579,362</b>	1,172,801,261	1,025,778,702
Customers' and other deposits		<b>55,233,051</b>	25,874,128	17,687,464
Other noncurrent liabilities		<b>(15,568,148)</b>	(715,319,489)	(45,878,346)
Net cash generated from operations		<b>49,902,518,465</b>	40,092,931,395	41,657,883,082
Interest paid	5, 14	<b>(6,079,921,535)</b>	(7,039,945,992)	(6,269,585,201)
Interest received		<b>303,418,888</b>	348,069,074	259,726,128
Contribution to retirement fund		<b>(56,855,867)</b>	(50,589,204)	(35,088,503)
Income tax paid		<b>(90,253)</b>	(90)	(1,182)
Net cash provided by operating activities		<b>44,069,069,698</b>	33,350,465,183	35,612,934,324
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>				
Investment in capital expenditures	8, 13, 22	<b>(41,140,039,352)</b>	(38,426,102,738)	(32,639,626,138)
Additions to property and equipment	10	<b>(470,481,297)</b>	(937,696,351)	(1,226,843,279)
Proceeds from sale of property and equipment		<b>(5,617)</b>	-	-
Increase in other noncurrent assets		<b>1,620</b>	676,547	672,410
Net cash used in investing activities		<b>(41,610,524,646)</b>	(39,363,122,542)	(33,865,797,007)

Forward

<b>Years Ended December 31</b>				
		<b>2020</b>	2019	2018
	<b>Note</b>	(As restated - Note 6)	(As restated - Note 6)	(As restated - Note 6)
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>				
Proceeds of loans payable	14	<b>P19,200,000,000</b>	P34,300,000,000	P24,150,000,000
Payment of cash dividends		<b>(11,940,000,000)</b>	(16,251,135,000)	(19,262,971,400)
Payment of loans payable	14	<b>(11,683,444,328)</b>	(9,409,360,137)	(11,514,780,002)
Advances from shareholders		<b>250,051,483</b>	-	-
Settlement of obligation under lease liabilities	21	<b>(117,079,519)</b>	(124,246,087)	-
Transaction costs relating to issuance of shares		-	-	(45,356,490)
Net cash provided by (used in) financing activities		<b>(4,290,472,364)</b>	8,515,258,776	(6,673,107,892)
<b>EFFECTS OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS</b>				
		<b>(102,300,740)</b>	(113,482,391)	(68,713,029)
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>				
		<b>(1,934,228,052)</b>	2,389,119,026	(4,994,683,604)
<b>CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR</b>				
	11	<b>16,015,412,510</b>	13,626,293,484	18,620,977,088
<b>CASH AND CASH EQUIVALENTS AT END OF YEAR</b>				
	11	<b>P14,081,184,458</b>	P16,015,412,510	P13,626,293,484

See Notes to the Consolidated Financial Statements.

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

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**1. Reporting Entity**

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

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

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

On October 10, 1997, the SEC approved the Amendment to the Seventh Article of the Parent Company's Articles of Incorporation increasing the par value of its authorized capital stock from P0.01 to P1.00, decreasing the Parent Company's shares of stock from 500,000,000 shares to 50,000,000 shares, and stating that the stockholders shall have no pre-emptive rights.

On December 14, 2010, the SGDPI's Board of Directors (the "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 per share to P5.05 billion divided into 5.05 billion common shares at par value of P1 per share.

This amendment and increase in capital stock were pursued in connection with the issuance of 4.1 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 P20.00 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 par value of the Parent Company were to be swapped with 86.4 million shares of OTHI with a par value of P100 per share while the 2.10 billion shares of Parent Company were to be swapped with 871 million common shares of P21 with a par value of P1 per share.

As a result of the Share Swap Transaction, the Parent Company will legally and/or beneficially own 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.

#### *Events after December 31, 2020*

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 4,100,400,000 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.

As at the reporting date of the consolidated financial statements, the Parent Company’s shareholders are still in the process of securing the Certificate Authorizing Registration with the Bureau of Internal Revenue (BIR) in order to transfer in the name of the Parent Company the following shares:

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

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

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

\* Indirectly owned through OTHI

\*\* Indirectly owned through P21

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

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

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

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

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

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

### 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 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 December 31, 2020, the Group, through NGCP, entered into new construction contracts amounting to P60.88 billion, among the major contracts are as follows:

- Cebu-Bohol Interconnection Project (CBIP) Submarine
- Cebu-Bohol 230kV Interconnection Project - Submarine Cable Portion (Sp20.CBIPSC.Vt-0430)
- Negros-Panay 230kV Interconnection Project, Line 2, Submarine Cable Portion, Sp20.NPIPSC.L2.Vt-0484
- Mindanao-Visayas Interconnection Project (Umapad GIS Portion) & Lapu-Lapu 230kV Substation Project (GIS Portion), Sp20.MVIP(UMP)&LLSP.Vt-0487
- Manila (Navotas) - Marilao 230kV Transmission Line Under Manila (Navotas) 230kV Substation Project, Sp20.MMTL.Lt-0456
- Hermosa-San Jose TL
- Binga-Nagsaag (San Manuel) 230kV Transmission Line Project & Ambuklao - Binga 230kV Transmission Line Upgrading Project, Sp20. BNTLP&ABTLUP.Lt-0477
- Abuyog 230kV Substation Project, Sp20.ABUSP.Lt-0464
- Laguindingan 230kV Substation Project, Sp20.LSP.Mt-0488
- CBIP Sched 1
- Cebu - Bohol Interconnection Project (Sp20.CBIPHTL.Vt-0461) Schedule I - Dumanjug - Argao 230kV Transmission Line
- CNP Stage 3 TL
- Taguig - Baras 500kV Transmission Line (Package B: Laguna Lakeshore Portion) Under Taguig 500kV Substation Project, Sp20.TBETL(TSP).Lt-0455
- Tacurong - Kalamansig 69kV Transmission Line Project (Sp20.TKTLP.Mt-0469) (SCHEDULE I - TKn-01 to TKn-413; SCHEDULE II - TKn-414 to KALAMANSIG S/S)
- NCB S/S
- Nabas-Caticlan-Boracay 138kV Transmission Line Project (Substation Portion), Sp20.NCBTLP(SS).Vt-0450
- Cebu - Bohol Interconnection Project (Sp20.CBIPHT.Vt-0461) Schedule II - Maribojoc - Corella 230kV Transmission Line
- Panay-Guimaras 138KV Sched 2 s/s
- Amlan-Dumaguete 138kV Transmission Line Project (Substation Portion), Sp20.ADTLP.Vt-0489
- Nagsaag-Tumana
- Typhoon Rolly
- LVIP-3 Stage 2 sched 5
- Schedule III - Negros & Panay Island (Sp20.VSUP2.Vt-0479 (III))
- Schedule II - Cebu & Bohol Region (Sp20.VSUP2.Vt-0479 (II))
- Dumanjug 230kV Substation Expansion Project Under Cebu-Bohol 230kV Interconnection Project & Dumanjug 138/69kV Expansion Project Under Mindanao

For 2020, the Capital Expenditures approved by NGCP's BOD on March 07, 2019 amounted to P49.70 billion.

As at December 31, 2019, the Group, through NGCP, entered into new construction contracts amounting to P23.9 billion, as follows:

- Cebu-Bohol 230kV Interconnection Project
- Cebu-Lapu Lapu Transmission Project
- Cebu-Negros-Panay (CNP) 230kV Backbone Project
- Design, Supply and Installation of Transformer Fire Protection (Deluge Water Spray System) Under North Luzon Substation Upgrading Project

- Detailed Engineering Services of Navotas 230kV Substation and Taguig 500kV Substation Projects and Associated Transmission Line (Navotas Component)
- Eastern Albay 69kV Transmission Line Project
- Hermosa (Balsik)-San Jose 500kV Transmission Line Project
- Kabacan 138Kv Substation Project (Including Kidapawan and General Santos 138Kv Substations) And Tacurong-Kalamansig 69Kv Transmission Line Project
- Luzon Voltage Improvement Project 3
- Marilao (Balsik)-San Jose 500kV Transmission Line Project
- Mindanao Substation Rehabilitation Project
- Mindanao Substation Upgrading Project
- Nabas-Caticlan-Boracay 138kV Transmission Project
- Panay-Guimaras 138kV Interconnection Project
- Permanent Restoration of Colon-Samboan 138kV Lines & 2 Affected by Landslide
- Pinili 230kV Substation Project
- Real-Time Monitoring and Control Equipment for Distribution Utilities and Monitoring Equipment for Generators Project
- Rerouting of Various Luzon Transmission Line Project
- San Manuel-Nagsaag 230kV Transmission Line Project
- San Simon 230kV Substation Project
- South Luzon Substations Upgrading Project
- Taguig 500Kv Substation Project
- Visayas Substation Upgrading Project
- Tower site improvements along Hermosa-Castillejos
- Marilao EHV SS Project
- Amendment for the Panit-an Nabas Line 2 Project

For 2019, the Capital Expenditures approved by the NGCP's BOD on March 07, 2018 amounted to P36.92 billion.

*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.

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

In 2019, ongoing construction contracts related to the PUC are as follows:

- Luzon PCB Replacement Project San Jose & Malaya S/S (Ongoing)
- Negros V Transmission Project (On-going);
- New Naga (Colon) 138kV S/S Project (On-going); and
- Tacurong-Nuling 138kV TL Project (Ongoing)

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.

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

*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 18).

Pursuant to Section 8 of RA 9511, NGCP is required to list, subject to the requirements of the SEC and the PSE, and make a public offering of the shares representing at least twenty *per centum* (20%) of its outstanding capital stock or a higher percentage that may hereafter be provided by law within ten (10) years from the commencement of its operations: Provided, That the listing in the PSE of any company which directly or indirectly owns or controls at least thirty per centum (30%) of the outstanding shares of stock of NGCP shall be considered full compliance of this listing requirement. In case compliance with this requirement is not reached, the ERC may, upon application of NGCP, and after notice and hearing, allow such reasonable extension of the period within which NGCP should list its shares of stock, if the market condition is not suitable for such listing (see Note 25). The Share Swap Transaction involving the Parent Company, OTHI and P21 is part of the active steps taken aimed to comply with this requirement.

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

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## 2. Basis of Preparation

### Statement of Compliance

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

In addition to the financial statements previously issued on April 12, 2021, the Group issues these consolidated financial statements as at December 31, 2020 and 2019 to comply with the requirements of the SEC for the filing of registration statement in relation to the Parent Company's planned 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 as at and for the years ended December 31, 2018 and 2017 being restated as if the entities had always been combined for the periods that the entities were under common control (see Note 6).

The accompanying consolidated financial statements were authorized for issue by the BOD on August 10, 2021.

### 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 the present value of the defined benefit obligation less fair value of plan assets.

### 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 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 comprehensive income and within equity in the consolidated statements of financial position, separately from the equity attributable to equity holders of the Parent Company.

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

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

#### Use of Judgments and Estimates

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

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

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

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

#### *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, 19 and 25).

#### *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 of 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 December 31, 2020 and 2019, the analysis of allowance for impairment losses on receivables is presented in Note 12.

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

The Group estimates the useful lives of property and equipment based on the period over which the assets are expected to be available for use. The estimated useful lives of property and equipment are reviewed periodically and are updated if expectations differ from previous estimates due to physical wear and tear, technical or commercial obsolescence and legal or other limits on the use of the assets.

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

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

The carrying amount of the Group's property and equipment as at December 31, 2020 and 2019 amounted to P3.97 billion and P4.18 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 2020, 2019 and 2018. As at December 31, 2020 and 2019, 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 through regulatory reset filing as of the end of the concession period and shall be excluded from the value of intangible assets to be amortized over the remaining concession period and will be charged against the Recovery Payment at the end of the period.

As at December 31, 2020 and 2019, the estimated residual value of intangible assets from completed projects at the end of the concession period amounted to P34.14 billion and P32.80 billion, respectively.

#### *Impairment of Goodwill*

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

No impairment loss was recognized on goodwill in 2020, 2019 and 2018. The carrying amount of goodwill amounted to P10.47 billion as at December 31, 2020 and 2019, (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 2020, 2019 and 2018 amounted to P243.51 million, P355.65 million and P132.42 million, respectively. Retirement benefits liability as at December 31, 2020 and 2019 amounted to P2.03 billion and P1.62 billion, respectively (see Note 22).

#### *Impairment of Nonfinancial Assets*

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

Management believes that there is no indication of impairment loss in the carrying value of the Group's property and equipment and intangible asset as at December 31, 2020 and 2019.

#### *Contingencies*

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

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### 3. Summary of Significant Accounting Policies

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

#### Adoption of Amendments to Standards and Interpretations

The Financial Reporting Standards Council (FRSC) approved the adoption of amendments to standards and interpretations as part of PRFS. The following standard are relevant to the Group and have been adopted starting January 1, 2020.

- *Amendments to References to Conceptual Framework in PFRS Standards* sets out amendments to PFRS Standards, their accompanying documents and PFRS practice statements to reflect the issuance of the revised Conceptual Framework for Financial Reporting in 2018 (2018 Conceptual Framework). The 2018 Conceptual Framework includes:
  - a new chapter on measurement;
  - guidance on reporting financial performance;
  - improved definitions of an asset and a liability, and guidance supporting these definitions; and
  - clarifications in important areas, such as the roles of stewardship, prudence and measurement uncertainty in financial reporting.

Some Standards, their accompanying documents and PFRS practice statements contain references to, or quotations from, the International Accounting Standards Committee (IASC)'s Framework for the Preparation and Presentation of Financial Statements adopted by the International Accounting Standards Board (IASB) in 2001 or the Conceptual Framework for Financial Reporting issued in 2010. The amendments update some of those references and quotations so that they refer to the 2018 Conceptual Framework, and makes other amendments to clarify which version of the Conceptual Framework is referred to in particular documents.

- *Definition of Material (Amendments to PAS 1, Presentation of Financial Statements and PAS 8, Accounting Policies, Changes in Accounting Estimates and Errors)*. The amendments refine the definition of material. The amended definition of material states that information is material if omitting, misstating or obscuring it could reasonably be expected to influence the decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity. The amendments clarify the definition of material and its application by:
  - (a) raising the threshold at which information becomes material by replacing the term 'could influence' with 'could reasonably be expected to influence';
  - (b) including the concept of 'obscuring information' alongside the concept of 'omitting' and 'misstating' information in the definition;
  - (c) clarifying that the users to which the definition refers are the primary users of general purpose financial statements referred to in the Conceptual Framework;
  - (d) clarifying the explanatory paragraphs accompanying the definition; and
  - (e) aligning the wording of the definition of material across PFRS Standards and other publications.

The amendments are expected to help entities make better materiality judgements without substantively changing existing requirements.

#### Amended Standards and Framework Not Yet Adopted

A number of amendments to standards, and framework are effective for annual periods beginning after January 1, 2020 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 June 1, 2020*

- *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 June 30, 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, with earlier application permitted. 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.

#### *Effective January 1, 2021*

- *Interest Rate Benchmark Reform - Phase 2 (Amendments to PFRS 9, Financial Instruments, PAS 39, Financial Instruments: Recognition and Measurement, PFRS 7, Financial Instruments: Disclosures, PFRS 4, Insurance Contracts and PFRS 16, Leases).* The amendments address issues that might affect financial reporting as a result of the reform of an interest rate benchmark, including the effects of changes to contractual cash flows or hedging relationships arising from the replacement of an interest rate benchmark with an alternative benchmark rate. The amendments provide practical relief from certain requirements in PFRS 9, PAS 39, PFRS 17, *Insurance Contracts*, PFRS 4 and PFRS 16 relating to: changes in the basis for determining contractual cash flows of financial assets, financial liabilities and lease liabilities; and hedge accounting.

*Effective January 1, 2022*

- *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)*. 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.

*Effective January 1, 2023*

- *Classification of Liabilities as Current or Non-current (Amendments to PAS 1, Presentation of Financial Statements)*. To promote consistency in application and clarify the requirements on determining if a liability is current or non-current, the IASB has amended PAS 1, Presentation of Financial Statements and the amendments could have a significant impact on classification of liabilities.
  - Right to defer settlement must have substance;
  - Classification of rollover facilities may change; and
  - Convertible debt may become current.
- *Definition of Accounting Estimates (Amendments to PAS 8, Accounting Policies, Changes in Accounting Estimates and Errors)*. To clarify the distinction between changes in accounting policies and changes in accounting estimates, the amendments introduce a new definition for accounting estimates, clarifying that they are monetary amounts in the financial statements that are subject to measurement uncertainty. The amendments also clarify the relationship between accounting policies and accounting estimates by specifying that an accounting estimate is developed to achieve the objective set out by an accounting policy. Developing an accounting estimate includes both selecting a measurement technique and choosing the inputs to be used when applying the chosen measurement technique. The effects of changes in such inputs or measurement techniques are changes in accounting estimates. The definition of accounting policies remain unchanged. The amendments also provide examples on the application of the new definition.

The amendments 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.

- 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 include 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.

#### Service Concession Arrangements

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

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

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

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

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

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

#### Intangible Asset

##### *Service Concession Arrangement*

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

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

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

Subsequent performance of construction and upgrade services, 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 interest 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.

#### Non-controlling Interests

The acquisitions of non-controlling interest 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.

## 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 measured 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 sales activity.

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

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 of December 31, 2020 and 2019. 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.

### Derecognition of Financial Assets and Liabilities

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

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

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

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

### Offsetting Financial Instruments

Financial assets and financial liabilities are offset and the net amount is reported in the consolidated statements of financial position if, and only if, there is a currently enforceable legal right to offset the recognized amounts and there is an intention to settle on a net basis, or to realize the asset and settle the liability simultaneously. This is not generally the case with master netting agreements, and the related assets and liabilities are presented gross in the consolidated statements of financial position.

### Debt Issuance Costs

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

### 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 represent 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 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.

##### *Revenue from Transmission Services Operating Income*

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

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

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

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

##### *Revenue from Connection and Residual Sub-transmission Charges*

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

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

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

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

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

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

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

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

The Group was authorized to engage in ancillary service business through Section 1 of RA 9511 and through Ancillary Service Procurement Plan (ASPP). These are services that are essential to the management of power system security, that facilitate orderly trading in electricity and ensure that electricity supplies are of an acceptable quality. With reference to Section 43 of 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; and
- 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.

Expenses are recognized when incurred.

#### 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 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

As discussed in Note 1, 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.

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#### 4. Concession Agreement

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

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

##### Concession Agreement

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

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

On February 28, 2008, the Group, through NGCP entered into a Concession Agreement with PSALM and TRANSCO granting the Group, 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<sup>th</sup> anniversary of the Commencement Date (the “Term”) or for longer than the remaining term of the Group, through NGCP’s franchise.

The Concession Agreement provides for the following, among others:

- a) From Commencement Date and subject to the terms of the Agreement, the Concessionaire shall take over and operate the whole of TRANSCO’s regulated transmission business as a going concern and be the sole representative of the regulated entity to the ERC.
- b) The ERC shall regulate the Concessionaire in carrying on the Concession Agreement in accordance with applicable law, including EPIRA or any successor legislation.
- c) The Concessionaire, its employees, contractors and agents, shall have exclusive use of the Transmission Assets, Documented Property Rights and Intellectual Property Rights for the purpose of carrying out the Concession Agreement.
- d) The Concessionaire shall during the concession period assume all of the responsibilities as if it’s an owner of the Transmission Assets, other than excluded assets, Documented Property Rights and Intellectual Property Rights including the obligation to license fees, taxes, renewal fees and other charges payable that fall due for payment during the concession period.

- e) So long as no Concessionaire default is continuing, TRANSCO shall make available to the Concessionaire the amounts of budgeted external funding under the Funding Agreements which have not been drawn as of 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 Note 8).
- 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 of 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 of 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 of 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 of the expiration date determined.

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

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

#### Standby Letter of Credit

In compliance with the terms and conditions of the Concession Agreement, the Group 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 22, 2020 until October 22, 2021.

#### Transferred Contracts

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

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## **5. Concession Fee**

As discussed in Note 4 to the consolidated financial statements, the Group shall pay PSALM US\$3.95 billion (P172.99 billion) as Concession Fee. Such fee is recognized as part of "Intangible asset" account in the consolidated statements of financial position as at December 31, 2020 and 2019 (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 from the Investors (see Note 17).

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 of 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 BOD approved, on 16 June 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 01 January 2016 to 31 December 2020, interest rate applied was 6.5391%.

With the retirement of the PDST reference rates effective 29 October 2018, PSALM in its letter dated 14 August 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 of January 13, 2021 was 3.013% plus 2.30% margin, the applicable interest rate for the Fifth Regulatory Period covering 01 January 2021 to 31 December 2025 shall be 5.313%.

Interest expense on deferred payments in 2020, 2019 and 2018 recognized in profit or loss amounted to P3.25 billion, P3.55 billion and P3.55 billion, respectively (see Note 14).

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## **6. Business Combination under Common Control**

As discussed in Note 1, on May 28, 2021, the shares related to the Share Swap Transaction were deemed issued following Philippine SEC's approval on the increase in authorized capital stock of the Parent Company. The business combination involving OTHI and P21 including NGCP (collectively referred to as the "acquired subsidiaries") and SGDPI qualified as a business combination of entities under common control as two major shareholders, through contractual agreement and with majority representation in the BOD, jointly control SGDPI and the acquired subsidiaries before and after the acquisition.

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.

The consolidated financial statements as at December 31, 2020 and 2019 and for the years ended December 31, 2020, 2019 and 2018 were restated as if the entities had always been combined for the period that the entities were under common control.

The restated amounts in the consolidated statement financial position as at December 31, 2020 as a result of the retrospective accounting of the business combination under common control were as follows:

	Adjustment from the Retrospective Application of Pooling of Interest Method for Business Combination of Entities Under Common Control							Consolidated Statement of Financial Position of SGDPI
	Statement of Financial Position of SGDPI	Consolidated Statement of Financial Position of OTHI	Consolidated Statement of Financial Position of P21	Statement of Financial Position of NGCP	Share Swap Transaction	Elimination of Investment in OTHI, P21 and NGCP	Reclassification	
<b>ASSETS</b>								
<b>Noncurrent Assets</b>								
Intangible asset - net	P -	P -	P -	P267,754,728,000	P -	P -	P -	P267,754,728,000
Investment	-	24,103,126,193	24,080,525,618	-	82,008,000,000	(130,191,651,811)	-	-
Goodwill	-	10,227,305,210	-	-	-	244,305,859	-	10,471,611,069
Property and equipment - net	-	3,371,279	487,921	3,971,036,799	-	-	-	3,974,895,999
Receivables - net of current portion	-	-	-	102,613,858	-	-	-	102,613,858
Other noncurrent assets	-	404,554	294,161	145,817,883	-	-	-	146,516,598
<b>Total Noncurrent Assets</b>	-	<b>34,334,207,236</b>	<b>24,081,307,700</b>	<b>271,974,196,540</b>	<b>82,008,000,000</b>	<b>(129,947,345,952)</b>	-	<b>282,450,365,524</b>
<b>Current Assets</b>								
Cash and cash equivalents	256,565,047	143,154,710	101,776,731	13,579,687,970	-	-	-	14,081,184,458
Receivables - net	-	-	42,300	13,577,605,115	-	-	-	13,577,647,415
Prepaid expenses and other current assets	-	9,148,580	10,906,534	34,482,918,194	-	-	-	34,502,973,308
<b>Total Current Assets</b>	<b>256,565,047</b>	<b>152,303,290</b>	<b>112,725,565</b>	<b>61,640,211,279</b>	-	-	-	<b>62,161,805,181</b>
	<b>P256,565,047</b>	<b>P34,486,510,526</b>	<b>P24,194,033,265</b>	<b>P333,614,407,819</b>	<b>P82,008,000,000</b>	<b>(P129,947,345,952)</b>	<b>P -</b>	<b>P344,612,170,705</b>

Forward

	Adjustment from the Retrospective Application of Pooling of Interest Method for Business Combination of Entities Under Common Control							Consolidated Statement of Financial Position of SGDPI
	Statement of Financial Position of SGDPI	Consolidated Statement of Financial Position of OTHI	Consolidated Statement of Financial Position of P21	Statement of Financial Position of NGCP	Share Swap Transaction	Elimination of Investment in OTHI, P21 and NGCP	Reclassification	
<b>LIABILITIES AND EQUITY</b>								
<b>Noncurrent Liabilities</b>								
Loans payable - net of current portion	P -	P -	P -	P122,503,864,258	P -	P -	P -	P122,503,864,258
Retirement benefits liability	-	-	-	2,027,098,489	-	-	-	2,027,098,489
Customers' and other deposits	-	-	-	400,865,396	-	-	-	400,865,396
Concession fee payable	-	-	-	54,319,128,352	-	-	-	54,319,128,352
Other noncurrent liabilities	-	-	-	1,767,715,209	-	-	-	1,767,715,209
<b>Total Noncurrent Liabilities</b>	-	-	-	<b>181,018,671,704</b>	-	-	-	<b>181,018,671,704</b>
<b>Current Liabilities</b>								
Trade and other current payables	758,425	90,485,534	905,635,997	50,777,938,686	-	-	(843,429,132)	50,931,389,510
Current portion of loans payable	-	-	-	13,181,457,762	-	-	-	13,181,457,762
Other current liabilities	250,051,483	-	32	8,737,429,747	-	-	843,429,132	9,830,910,394
<b>Total Current Liabilities</b>	<b>250,809,908</b>	<b>90,485,534</b>	<b>905,636,029</b>	<b>72,696,826,195</b>	-	-	-	<b>73,943,757,666</b>
<b>Total Liabilities</b>	<b>250,809,908</b>	<b>90,485,534</b>	<b>905,636,029</b>	<b>253,715,497,899</b>	-	-	-	<b>254,962,429,370</b>
<b>Equity</b>								
Capital stock	49,466,000	12,900,000,000	1,300,000,000	2,000,000,000	4,100,400,000	(16,200,000,000)	-	4,149,866,000
Additional paid-in capital	-	3,208,700,000	-	44,843,375,000	77,907,600,000	(48,052,075,000)	-	77,907,600,000
Remeasurements gains(losses) on defined benefit liability	-	-	-	(378,036,092)	-	226,065,583	-	(151,970,509)
Share in other comprehensive income (loss) of an associate	-	(113,410,828)	(113,410,828)	-	-	226,821,656	-	-
Equity adjustments from common control transactions	-	-	-	-	-	(73,359,171,000)	-	(73,359,171,000)
Retained earnings	(43,710,861)	18,400,735,820	22,101,808,064	33,433,571,012	-	(18,207,530,239)	-	55,684,873,796
<b>Equity Attributable to Equity Holders of the Parent Company</b>	<b>5,755,139</b>	<b>34,396,024,992</b>	<b>23,288,397,236</b>	<b>79,898,909,920</b>	<b>82,008,000,000</b>	<b>(155,365,889,000)</b>	-	<b>64,231,198,287</b>
Non-controlling interests	-	-	-	-	-	25,418,543,048	-	25,418,543,048
<b>Total Equity</b>	<b>5,755,139</b>	<b>34,396,024,992</b>	<b>23,288,397,236</b>	<b>79,898,909,920</b>	<b>82,008,000,000</b>	<b>(129,947,345,952)</b>	-	<b>89,649,741,335</b>
	<b>P256,565,047</b>	<b>P34,486,510,526</b>	<b>P24,194,033,265</b>	<b>P333,614,407,819</b>	<b>P82,008,000,000</b>	<b>(P129,947,345,952)</b>	<b>P -</b>	<b>P344,612,170,705</b>

The restated amounts in the consolidated statement of income and consolidated statement of comprehensive income for the year ended December 31, 2020 as a result of the retrospective accounting of the business combination under common control were as follows:

<b>Adjustment from the Retrospective Application of Pooling of Interest Method for Business Combination of Entities Under Common Control</b>								
	Statement of Income of SGDPI	Consolidated Statement of Income of OTHI	Consolidated Statement of Income of P21	Statement of Income of NGCP	Share of Noncontrolling Interests in Net Income of OTHI, P21 and NGCP	Elimination of Investment in OTHI, P21 and NGCP	Consolidated Statement of Income of SGDPI	
	P -	P -	P -	P48,606,604,103	P -	P -	P48,606,604,103	
<b>REVENUES - Net</b>	<b>P -</b>	<b>P -</b>	<b>P -</b>	<b>P48,606,604,103</b>	<b>P -</b>	<b>P -</b>	<b>P48,606,604,103</b>	
<b>EXPENSES</b>								
Amortization of intangible asset	-	-	-	8,406,714,719	-	-	8,406,714,719	
Salaries, wages and employee benefits	5,766,402	820,398	1,968,049	4,425,069,791	-	-	4,433,624,640	
Repairs and maintenance	10,554	60,684	148,886	1,320,609,027	-	-	1,320,829,151	
Donation for COVID-19 preventive drive	-	-	-	942,846,200	-	-	942,846,200	
Depreciation	-	3,614,697	1,395,960	665,678,440	-	-	670,689,097	
Supervision and regulatory fees	-	-	-	468,433,750	-	-	468,433,750	
Insurance	1,122	-	110,535	455,176,553	-	-	455,288,210	
Security and janitorial	-	-	-	434,804,117	-	-	434,804,117	
Communication, light and water	-	35,195	398,295	340,294,011	-	-	340,727,501	
Public relation and corporate social responsibility	-	-	-	321,477,089	-	-	321,477,089	
Outside services	-	-	-	236,634,990	-	-	236,634,990	
Transportation and travel	3,159	238	233,327	187,474,846	-	-	187,711,570	
Supplies and tools	5,938	289,747	425,652	184,855,859	-	-	185,577,196	
Representation and entertainment	-	75,974	418,148	167,848,118	-	-	168,342,240	
Fuel and oil	-	-	-	101,473,574	-	-	101,473,574	
Rent	-	-	471,843	98,428,955	-	-	98,900,798	
Provision for impairment losses on receivables	-	-	-	64,670,000	-	-	64,670,000	
Taxes and licenses	1,988,226	38,264	55,863	64,487,180	-	-	66,569,533	
Professional fees	17,307,832	3,821,389	14,574,365	33,622,860	-	-	69,326,446	
Meetings and conferences	74,986	-	-	19,937,455	-	-	20,012,441	
Advertising	-	-	-	18,637,731	-	-	18,637,731	
Director's fee	-	15,000,000	-	-	-	-	15,000,000	
Charitable contributions	-	-	-	1,542,853	-	-	1,542,853	
Filing fees	1,283,162	-	-	-	-	-	1,283,162	
Management fees	-	14,253,095	14,253,095	-	-	(28,506,190)	-	
Miscellaneous	3,678,723	296,225	260,352	7,228,788	-	-	11,464,088	
	30,120,104	38,305,906	34,714,370	18,967,946,906	-	(28,506,190)	19,042,581,096	
<b>INCOME (LOSS) FROM OPERATIONS</b>	<b>(30,120,104)</b>	<b>(38,305,906)</b>	<b>(34,714,370)</b>	<b>29,638,657,197</b>	<b>-</b>	<b>-</b>	<b>29,564,023,007</b>	

Forward

**Adjustment from the Retrospective Application of Pooling of Interest Method for  
Business Combination of Entities Under Common Control**

	Statement of Income of SGDPI	Consolidated Statement of Income of OTHI	Consolidated Statement of Income of P21	Statement of Income of NGCP	Share of Noncontrolling Interests in Net income of OTHI, P21 and NGCP	Elimination of Investment in OTHI, P21 and NGCP	Consolidated Statement of Income of SGDPI
<b>OTHER CHARGES - Net</b>							
Interest expense	P -	P -	(P7,651)	(P6,556,320,556)	P -	P -	(P6,556,328,207)
Interest income	444,739	7,394,198	6,822,934	255,721,366	-	-	270,383,237
Foreign exchange gain (loss) - net	(21,043)	(35,180)	(49,722)	312,017,642	-	-	311,911,697
Bank and finance charges	(408)	(3,302)	(6,758)	(223,946,779)	-	-	(223,957,247)
Loss on disposal of property and equipment	-	-	1,620	(1,317,851)	-	-	(1,316,231)
Equity in net earnings of an associate	-	7,049,005,780	7,049,005,780	-	-	(14,098,011,560)	-
Management income	28,506,190	-	-	-	-	(28,506,190)	-
Miscellaneous income	-	-	-	71,874,913	-	-	71,874,913
	<b>28,929,478</b>	<b>7,056,361,496</b>	<b>7,055,766,203</b>	<b>(6,141,971,265)</b>	<b>-</b>	<b>(14,126,517,750)</b>	<b>(6,127,431,838)</b>
<b>CONSTRUCTION REVENUE AND COSTS</b>							
Construction revenue	-	-	-	41,236,872,447	-	-	41,236,872,447
Construction costs	-	-	-	(41,236,872,447)	-	-	(41,236,872,447)
	-	-	-	-	-	-	-
<b>NET INCOME (LOSS) BEFORE TAX</b>	<b>(1,190,626)</b>	<b>7,018,055,590</b>	<b>7,021,051,833</b>	<b>23,496,685,932</b>	<b>-</b>	<b>(14,098,011,560)</b>	<b>23,436,591,169</b>
<b>INCOME TAX EXPENSE</b>	<b>799,416</b>	<b>-</b>	<b>32</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>799,448</b>
<b>NET INCOME (LOSS)</b>	<b>(P1,990,042)</b>	<b>P7,018,055,590</b>	<b>P7,021,051,801</b>	<b>P23,496,685,932</b>	<b>P -</b>	<b>(P14,098,011,560)</b>	<b>P23,435,791,721</b>
<b>Attributable to:</b>							
Equity holders of the Parent Company	(P1,990,042)	P7,018,055,590	P7,021,051,801	P23,496,685,932	(P14,040,986,854)	(P14,098,011,560)	P9,394,804,867
Non-controlling interests	-	-	-	-	14,040,986,854	-	14,040,986,854
	<b>(P1,990,042)</b>	<b>P7,018,055,590</b>	<b>P7,021,051,801</b>	<b>P23,496,685,932</b>	<b>P -</b>	<b>(P14,098,011,560)</b>	<b>P23,435,791,721</b>

Forward

**Adjustment from the Retrospective Application of Pooling of Interest Method for  
Business Combination of Entities Under Common Control**

	Statement of Comprehensive Income of SGDPI	Consolidated Statement of Comprehensive Income of OTHI	Consolidated Statement of Comprehensive Income of P21	Statement of Comprehensive Income of NGCP	Share of Noncontrolling Interests in Net income of OTHI, P21 and NGCP	Elimination of Investment in OTHI, P21 and NGCP	Consolidated Statement of Comprehensive Income of SGDPI
<b>NET INCOME (LOSS)</b>	(P1,990,042)	P7,018,055,590	P7,021,051,801	P23,496,685,932	P -	(P14,098,011,560)	P23,435,791,721
<b>OTHER COMPREHENSIVE INCOME (LOSS)</b>							
<i>Item that will never be reclassified to profit or loss</i>							
Remeasurement losses on defined benefit liability	-	(55,480,909)	(55,480,909)	(184,936,363)	-	110,961,818	(184,936,363)
<i>Item that can be reclassified to profit or loss</i>							
Hedging reserve	-	-	-	-	-	-	-
<b>OTHER COMPREHENSIVE INCOME (LOSS)</b>	-	(55,480,909)	(55,480,909)	(184,936,363)	-	110,961,818	(184,936,363)
<b>TOTAL COMPREHENSIVE INCOME (LOSS)</b>	(P1,990,042)	P6,962,574,681	P6,965,570,892	P23,311,749,569	P -	(P13,987,049,742)	P23,250,855,358
<b>Attributable to:</b>							
Equity holders of the Parent Company	(P1,990,042)	P6,962,574,681	P6,965,570,892	P23,311,749,569	(P13,930,394,909)	(P13,987,049,742)	P9,320,460,449
Non-controlling interests	-	-	-	-	13,930,394,909	-	13,930,394,909
	(P1,990,042)	P6,962,574,681	P6,965,570,892	P23,311,749,569	P -	(P13,987,049,742)	P23,250,855,358

The restated amounts in the consolidated statement financial position as at December 31, 2019 as a result of the retrospective accounting of the business combination under common control were as follows:

	Adjustment from the Retrospective Application of Pooling of Interest Method for Business Combination of Entities Under Common Control							Consolidated Statement of Financial Position of SGDPI
	Statement of Financial Position of SGDPI	Consolidated Statement of Financial Position of OTHI	Consolidated Statement of Financial Position of P21	Statement of Financial Position of NGCP	Share Swap Transaction	Elimination of Investment in OTHI, P21 and NGCP	Reclassification	
<b>ASSETS</b>								
<b>Noncurrent Assets</b>								
Intangible asset - net	P -	P -	P -	P234,827,667,173	P -	P -	P -	P234,827,667,173
Investment	-	20,709,601,322	20,687,000,747	-	82,008,000,000	(123,404,602,069)	-	-
Goodwill	-	10,227,305,210	-	-	-	244,305,859	-	10,471,611,069
Property and equipment - net	-	6,985,976	1,321,021	4,167,627,501	-	-	-	4,175,934,498
Receivables - net of current portion	-	-	-	169,437,492	-	-	-	169,437,492
Other noncurrent assets	-	838,317	364,392	158,602,651	-	-	-	159,805,360
<b>Total Noncurrent Assets</b>	<b>-</b>	<b>30,944,730,825</b>	<b>20,688,686,160</b>	<b>239,323,334,817</b>	<b>82,008,000,000</b>	<b>(123,160,296,210)</b>	<b>-</b>	<b>249,804,455,592</b>
<b>Current Assets</b>								
Cash and cash equivalents	8,199,603	164,803,932	116,626,333	15,725,782,642	-	-	-	16,015,412,510
Receivables - net	-	-	9,000	9,186,428,574	-	-	-	9,186,437,574
Prepaid expenses and other current assets	-	6,603,787	8,479,539	32,378,329,957	-	-	-	32,393,413,283
<b>Total Current Assets</b>	<b>8,199,603</b>	<b>171,407,719</b>	<b>125,114,872</b>	<b>57,290,541,173</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>57,595,263,367</b>
	<b>P8,199,603</b>	<b>P31,116,138,544</b>	<b>P20,813,801,032</b>	<b>P296,613,875,990</b>	<b>P82,008,000,000</b>	<b>(P123,160,296,210)</b>	<b>P -</b>	<b>P307,399,718,959</b>

Forward

	Adjustment from the Retrospective Application of Pooling of Interest Method for Business Combination of Entities Under Common Control							
	Statement of Financial Position of SGDPI	Consolidated Statement of Financial Position of OTHI	Consolidated Statement of Financial Position of P21	Statement of Financial Position of NGCP	Share Swap Transaction	Elimination of Investment in OTHI, P21 and NGCP	Reclassification	Consolidated Statement of Financial Position of SGDPI
<b>LIABILITIES AND EQUITY</b>								
<b>Noncurrent Liabilities</b>								
Loans payable - net of current portion	P -	P -	P -	P116,623,893,513	P -	P -	P -	P116,623,893,513
Retirement benefits liability	-	-	-	1,615,865,337	-	-	-	1,615,865,337
Customers' and other deposits	-	-	-	345,632,345	-	-	-	345,632,345
Concession fee payable	-	-	-	54,319,128,352	-	-	-	54,319,128,352
Other noncurrent liabilities	-	-	-	1,842,270,291	-	-	-	1,842,270,291
<b>Total Noncurrent Liabilities</b>	-	-	-	174,746,789,838	-	-	-	174,746,789,838
<b>Current Liabilities</b>								
Trade and other current payables	454,422	112,687,786	920,973,830	34,373,202,581	-	-	(843,429,132)	34,563,889,487
Current portion of loans payable	-	-	-	11,544,872,835	-	-	-	11,544,872,835
Other current liabilities	-	447	858	7,361,850,385	-	-	843,429,132	8,205,280,822
<b>Total Current Liabilities</b>	454,422	112,688,233	920,974,688	53,279,925,801	-	-	-	54,314,043,144
<b>Total Liabilities</b>	454,422	112,688,233	920,974,688	228,026,715,639	-	-	-	229,060,832,982
<b>Equity</b>								
Capital stock	49,466,000	12,900,000,000	1,300,000,000	2,000,000,000	4,100,400,000	(16,200,000,000)	-	4,149,866,000
Additional paid-in capital	-	3,208,700,000	-	44,843,375,000	77,907,600,000	(48,052,075,000)	-	77,907,600,000
Remeasurements gains(losses) on defined benefit liability	-	-	-	(193,099,729)	-	115,473,638	-	(77,626,091)
Share in other comprehensive income (loss) of an associate	-	(57,929,919)	(57,929,919)	-	-	115,859,838	-	-
Equity adjustments from common control transactions	-	-	-	-	-	(73,359,171,000)	-	(73,359,171,000)
Retained earnings	(41,720,819)	14,952,680,230	18,650,756,263	21,936,885,080	-	(9,208,531,825)	-	46,290,068,929
<b>Equity Attributable to Equity Holders of the Parent Company</b>	7,745,181	31,003,450,311	19,892,826,344	68,587,160,351	82,008,000,000	(146,588,444,349)	-	54,910,737,838
<b>Non-controlling interests</b>	-	-	-	-	-	23,428,148,139	-	23,428,148,139
<b>Total Equity</b>	7,745,181	31,003,450,311	19,892,826,344	68,587,160,351	82,008,000,000	(123,160,296,210)	-	78,338,885,977
	P8,199,603	P31,116,138,544	P20,813,801,032	P296,613,875,990	P82,008,000,000	(P123,160,296,210)	P -	P307,399,718,959

The restated amounts in the consolidated statement of income and consolidated statement of comprehensive income for the year ended December 31, 2019 as a result of the retrospective accounting of the business combination under common control were as follows:

Adjustment from the Retrospective Application of Pooling of Interest Method for Business Combination of Entities Under Common Control							
	Statement of Income of SGDPI	Consolidated Statement of Income of OTHI	Consolidated Statement of Income of P21	Statement of Income of NGCP	Share of Noncontrolling Interests in Net income of OTHI, P21 and NGCP	Elimination of Investment in OTHI, P21 and NGCP	Consolidated Statement of Income of SGDPI
REVENUES - Net	P -	P -	P -	P45,396,541,091	P -	P -	P45,396,541,091
EXPENSES							
Amortization of intangible asset	-	-	-	8,157,650,518	-	-	8,157,650,518
Salaries, wages and employee benefits	5,582,210	796,481	1,797,034	4,399,507,541	-	-	4,407,683,266
Repairs and maintenance	5,500	60,684	402,960	1,532,488,346	-	-	1,532,957,490
Depreciation	-	4,234,628	2,570,722	674,513,376	-	-	681,318,726
Supervision and regulatory fees	-	-	-	468,433,750	-	-	468,433,750
Insurance	1,122	-	122,027	422,896,901	-	-	423,020,050
Security and janitorial	-	-	-	461,498,526	-	-	461,498,526
Communication, light and water	-	32,498	485,281	423,333,230	-	-	423,851,009
Public relation and corporate social responsibility	-	-	-	274,354,917	-	-	274,354,917
Outside services	-	-	-	159,432,787	-	-	159,432,787
Transportation and travel	1,835	36,518	267,881	344,111,669	-	-	344,417,903
Supplies and tools	9,360	214,348	427,868	183,503,211	-	-	184,154,787
Representation and entertainment	-	175,904	484,093	101,714,396	-	-	102,374,393
Fuel and oil	-	-	-	152,464,219	-	-	152,464,219
Rent	-	-	-	96,905,076	-	-	96,905,076
Provision for impairment losses on receivables	-	-	-	64,670,000	-	-	64,670,000
Taxes and licenses	73,425	10,191,097	55,789	58,768,847	-	-	69,089,158
Professional fees	425,393	3,659,833	14,695,940	29,244,365	-	-	48,025,531
Meetings and conferences	98,299	-	-	65,086,307	-	-	65,184,606
Advertising	-	-	-	16,833,404	-	-	16,833,404
Director's fee	-	15,000,000	-	-	-	-	15,000,000
Charitable contributions	-	-	-	9,568,172	-	-	9,568,172
Filing fees	2,001,000	-	-	-	-	-	2,001,000
Miscellaneous	719,799	333,077	286,762	16,840,030	-	-	18,179,668
Management Fees	-	6,000,000	6,000,000	-	-	(12,000,000)	-
	8,917,943	40,735,068	27,596,357	18,113,819,588	-	(12,000,000)	18,179,068,956
INCOME (LOSS) FROM OPERATIONS	(8,917,943)	(40,735,068)	(27,596,357)	27,282,721,503	-	(12,000,000)	27,217,472,135

Forward

Adjustment from the Retrospective Application of Pooling of Interest Method for  
Business Combination of Entities Under Common Control

	Statement of Income of SGDPI	Consolidated Statement of Income of OTHI	Consolidated Statement of Income of P21	Statement of Income of NGCP	Share of Noncontrolling Interests in Net income of OTHI, P21 and NGCP	Elimination of Investment in OTHI, P21 and NGCP	Consolidated Statement of Income of SGDPI
OTHER CHARGES - Net							
Management Income	P12,000,000	P -	P -	P -	P -	(P12,000,000)	P -
Equity in net earnings of associate	-	6,009,106,235	6,009,106,235	-	-	(12,018,212,470)	-
Interest expense	-	-	(59,493)	(7,261,777,131)	-	-	(7,261,836,624)
Interest income	8,041	37,900,456	18,480,722	293,057,583	-	-	349,446,802
Foreign exchange gain (loss) - net	(15,386)	(19,508)	(31,146)	(194,551,882)	-	-	(194,617,922)
Bank and finance charges	(300)	(6,787)	(8,866)	(186,519,816)	-	-	(186,535,769)
Loss on disposal of property and equipment	-	-	-	(7,826,041)	-	-	(7,826,041)
Miscellaneous income	-	-	-	105,249,902	-	-	105,249,902
	11,992,355	6,046,980,396	6,027,487,452	(7,252,367,385)	-	(12,030,212,470)	(7,196,119,652)
CONSTRUCTION REVENUE AND COSTS							
Construction revenue	-	-	-	32,297,776,306	-	-	32,297,776,306
Construction costs	-	-	-	(32,297,776,306)	-	-	(32,297,776,306)
	-	-	-	-	-	-	-
NET INCOME BEFORE TAX	3,074,412	6,006,245,328	5,999,891,095	20,030,354,118	-	(12,018,212,470)	20,021,352,483
INCOME TAX EXPENSE (BENEFIT)	1,126,666	(6,252)	858	-	-	-	1,121,272
NET INCOME	P1,947,746	P6,006,251,580	P5,999,890,237	P20,030,354,118	P -	(P12,018,212,470)	P20,020,231,211
Attributable to:							
Equity holders of the Parent Company	P1,947,746	P6,006,251,580	P5,999,890,237	P20,030,354,118	(P11,978,128,447)	(P12,018,212,470)	P8,042,102,764
Non-controlling interests	-	-	-	-	11,978,128,447	-	11,978,128,447
	P1,947,746	P6,006,251,580	P5,999,890,237	P20,030,354,118	P -	(P12,018,212,470)	P20,020,231,211

Forward

Adjustment from the Retrospective Application of Pooling of Interest Method for  
Business Combination of Entities Under Common Control

	Statement of Comprehensive Income of SGDPI	Consolidated Statement of Comprehensive Income of OTHI	Consolidated Statement of Comprehensive Income of P21	Statement of Comprehensive Income of NGCP	Share of Noncontrolling Interests in Net income of OTHI, P21 and NGCP	Elimination of Investment in OTHI, P21 and NGCP	Consolidated Statement of Comprehensive Income of SGDPI
NET INCOME	P1,947,746	P6,006,251,580	P5,999,890,237	P20,030,354,118	P -	(P12,018,212,470)	P20,020,231,211
OTHER COMPREHENSIVE INCOME (LOSS)							
<i>Item that will never be reclassified to profit or loss</i>							
Remeasurement losses on defined benefit liability	-	(59,365,963)	(59,365,963)	(197,886,544)	-	118,731,926	(197,886,544)
<i>Item that can be reclassified to profit or loss</i>							
Hedging reserve	-	-	-	-	-	-	-
OTHER COMPREHENSIVE INCOME (LOSS)	-	(59,365,963)	(59,365,963)	(197,886,544)	-	118,731,926	(197,886,544)
TOTAL COMPREHENSIVE INCOME	P1,947,746	P5,946,885,617	P5,940,524,274	P19,832,467,574	P -	(P11,899,480,544)	P19,822,344,667
Attributable to:							
Equity holders of the Parent Company	P1,947,746	P5,946,885,617	P5,940,524,274	(P19,832,467,574)	(P11,859,792,294)	(P11,899,480,544)	P7,962,552,373
Non-controlling interests	-	-	-	-	11,859,792,294	-	11,859,792,294
	P1,947,746	P5,946,885,617	P5,940,524,274	(P19,832,467,574)	P -	(P11,899,480,544)	P19,822,344,667

The restated amounts in the consolidated statement of income and consolidated statement of comprehensive income for the year ended December 31, 2018 as a result of the retrospective accounting of the business combination under common control were as follows:

Adjustment from the Retrospective Application of Pooling of Interest Method for Business Combination of Entities Under Common Control							
	Statement of Income of SGDPI	Consolidated Statement of Income of OTHI	Consolidated Statement of Income of P21	Statement of Income of NGCP	Share of Noncontrolling Interests in Net Income of OTHI, P21 and NGCP	Elimination of Investment in OTHI, P21 and NGCP	Consolidated Statement of Income of SGDPI
	P -	P -	P -	P45,402,003,003	P -	P -	P45,402,003,003
<b>REVENUES - Net</b>	P -	P -	P -	P45,402,003,003	P -	P -	P45,402,003,003
<b>EXPENSES</b>							
Amortization of intangible asset	-	-	-	7,903,044,793	-	-	7,903,044,793
Salaries, wages and employee benefits	5,073,992	1,059,373	1,780,966	4,219,312,074	-	-	4,227,226,405
Repairs and maintenance	5,500	60,684	423,931	981,322,600	-	-	981,812,715
Security and janitorial	-	-	-	634,206,132	-	-	634,206,132
Depreciation	-	4,238,655	1,440,124	497,530,388	-	-	503,209,167
Supervision and regulatory fees	-	-	-	468,433,750	-	-	468,433,750
Insurance	1,122	-	140,351	414,466,974	-	-	414,608,447
Communication, light and water	-	33,344	450,881	386,031,651	-	-	386,515,876
Public relation and corporate social responsibility	-	-	-	332,910,947	-	-	332,910,947
Transportation and travel	2,903	36,765	244,697	400,928,231	-	-	401,212,596
Rent	-	-	1,141,228	275,301,075	-	-	276,442,303
Supplies and tools	13,400	177,091	453,161	199,142,889	-	-	199,786,541
Fuel and oil	-	-	-	186,110,684	-	-	186,110,684
Outside services	-	-	-	168,388,175	-	-	168,388,175
Representation and entertainment	-	137,003	440,317	134,725,775	-	-	135,303,095
Meetings and conferences	53,290	-	-	130,576,478	-	-	130,629,768
Other taxes	-	-	-	100,635,380	-	-	100,635,380
Provision for impairment losses on receivables	-	-	-	64,670,000	-	-	64,670,000
Professional fees	877,195	4,660,810	14,945,660	27,623,761	-	-	48,107,426
Taxes and licenses	73,840	831,986	55,286	43,939,230	-	-	44,900,342
Advertising	-	-	-	22,360,371	-	-	22,360,371
Director's fee	-	15,000,000	-	-	-	-	15,000,000
Charitable contributions	-	-	-	9,119,962	-	-	9,119,962
Filing fees	896,388	-	-	-	-	-	896,388
Management fee	-	3,600,000	3,600,000	-	-	(7,200,000)	-
Miscellaneous	969,208	400,611	288,622	14,980,720	-	-	16,639,161
	7,966,838	30,236,322	25,405,224	17,615,762,040	-	(7,200,000)	17,672,170,424
<b>INCOME (LOSS) FROM OPERATIONS</b>	(7,966,838)	(30,236,322)	(25,405,224)	27,786,240,963	-	7,200,000	27,729,832,579

Forward

Adjustment from the Retrospective Application of Pooling of Interest Method for  
Business Combination of Entities Under Common Control

	Statements of Income of SGDPI	Consolidated Statement of Income of OTHI	Consolidated Statement of Income of P21	Statement of Income of NGCP	Share of Noncontrolling Interests in Net Income of OTHI, P21 and NGCP	Elimination of Investment in OTHI, P21 and NGCP	Consolidated Statement of Income of SGDPI
<b>OTHER CHARGES - Net</b>							
Interest expense	P -	P -	P -	(P6,640,204,984)	P -	P -	(P6,640,204,984)
Foreign exchange gain (loss) - net	21,687	22,330	42,912	(423,642,688)	-	-	(423,555,759)
Interest income	8,224	11,464,665	9,732,643	259,416,257	-	-	280,621,789
Bank and finance charges	(1,000)	(7,157)	(11,345)	(164,919,150)	-	-	(164,938,652)
Loss on disposal of property and equipment	-	-	-	(178,175)	-	-	(178,175)
Equity in net earnings in an associate	-	6,294,076,315	6,294,076,315	-	-	(12,588,152,630)	-
Management income	7,200,000	-	-	-	-	(7,200,000)	-
Miscellaneous income	-	-	-	163,542,159	-	-	163,542,159
	7,228,911	6,305,556,153	6,303,840,525	(6,805,986,581)	-	(12,595,352,630)	(6,784,713,622)
<b>CONSTRUCTION REVENUE AND COSTS</b>							
Construction revenue	-	-	-	29,453,220,324	-	-	29,453,220,324
Construction costs	-	-	-	(29,453,220,324)	-	-	(29,453,220,324)
	-	-	-	-	-	-	-
<b>NET (LOSS) INCOME BEFORE TAX</b>	(737,927)	6,275,319,831	6,278,435,301	20,980,254,382	-	(12,588,152,630)	20,945,118,957
<b>INCOME TAX EXPENSE</b>	151,693	6,230	56	-	-	-	157,979
<b>NET INCOME (LOSS)</b>	(P889,620)	P6,275,313,601	P6,278,435,245	P20,980,254,382	P -	(P12,588,152,630)	P20,944,960,978
<b>Attributable to:</b>							
Equity holders of the Parent Company	(P889,620)	P6,275,313,601	P6,278,435,245	P20,980,254,382	(P12,537,214,872)	(P12,588,152,630)	P8,407,746,106
Non-controlling interests	-	-	-	-	12,537,214,872	-	12,537,214,872
	(P889,620)	P6,275,313,601	P6,278,435,245	P20,980,254,382	P -	(P12,588,152,630)	P20,944,960,978

Forward

Adjustment from the Retrospective Application of Pooling of Interest Method for  
Business Combination of Entities Under Common Control

	Statement of Comprehensive Income of SGDPI	Consolidated Statement of Comprehensive Income of OTHI	Consolidated Statement of Comprehensive Income of P21	Statement of Comprehensive Income of NGCP	Share of Noncontrolling Interests in Net income of OTHI, P21 and NGCP	Elimination of Investment in OTHI, P21 and NGCP	Consolidated Statement of Comprehensive Income of SGDPI
NET INCOME (LOSS)	(P889,620)	P6,275,313,601	P6,278,435,245	P20,980,254,382	P -	(P12,588,152,630)	P20,944,960,978
OTHER COMPREHENSIVE INCOME (LOSS)							
<i>Item that will never be reclassified to profit or loss</i>							
Remeasurement losses on defined benefit liability	-	27,034,590	27,034,590	90,115,299	-	(54,069,180)	90,115,299
<i>Item that can be reclassified to profit or loss</i>							
Hedging reserve	-	37,705,727	37,705,727	125,685,759	-	(75,411,454)	125,685,759
OTHER COMPREHENSIVE INCOME (LOSS)	-	64,740,317	64,740,317	215,801,058	-	(129,480,634)	215,801,058
TOTAL COMPREHENSIVE INCOME (LOSS)	(P889,620)	P6,340,053,918	P6,343,175,562	P21,196,055,440	P -	(P12,717,633,264)	P21,160,762,036
Attributable to:							
Equity holders of the Parent Company	(P889,620)	P6,340,053,918	P6,343,175,562	P21,196,055,440	(P12,666,263,905)	(P12,717,633,264)	P8,494,498,131
Non-controlling interests	-	-	-	-	12,666,263,905	-	12,666,263,905
	(P889,620)	P6,340,053,918	P6,343,175,562	P21,196,055,440	P -	(P12,717,633,264)	P21,160,762,036

The restated amounts in the consolidated statements of cash flows for the years ended December 31, 2020, 2019 and 2018 as a result of the retrospective accounting of the business combination under common control were as follows:

	<b>2020</b>					
	<b>Adjustment from the Retrospective Application of Pooling of Interest Method for Business Combination of Entities Under Common Control</b>					
	<b>Statement of Cash Flow of SGDPI</b>	<b>Consolidated Statement of Cash Flow of OTHI</b>	<b>Consolidated Statement of Cash Flow of P21</b>	<b>Statement of Cash Flow of NGCP</b>	<b>Elimination of Investment in OTHI, P21 and NGCP</b>	<b>Consolidated Statement of Cash Flow of SGDPI</b>
Net cash flows provided by operating activities	(P1,664,996)	(P51,614,042)	(P44,081,685)	P44,166,430,421	P -	P44,069,069,698
Net cash flows used in investing activities	-	3,600,000,000	3,599,920,294	(41,610,444,940)	(7,200,000,000)	(41,610,524,646)
Net cash flows used in financing activities	250,051,483	(3,570,000,000)	(3,570,638,489)	(4,599,885,358)	7,200,000,000	(4,290,472,364)
Effect of exchange rate changes in cash and cash equivalents	(21,043)	(35,180)	(49,722)	(102,194,795)	-	(102,300,740)
Net increase (decrease) in cash and cash equivalents	248,365,444	(21,649,222)	(14,849,602)	(2,146,094,672)	-	(1,934,228,052)
Cash and cash equivalents at beginning of year	8,199,603	164,803,932	116,626,333	15,725,782,642	-	16,015,412,510
Cash and cash equivalents at end of year	P256,565,047	P143,154,710	P101,776,731	P13,579,687,970	P -	P14,081,184,458

2019

Adjustment from the Retrospective Application of Pooling of Interest Method for  
Business Combination of Entities Under Common Control

	Statement of Cash Flow of SGDPI	Consolidated Statement of Cash Flow of OTHI	Consolidated Statement of Cash Flow of P21	Statement of Cash Flow of NGCP	Elimination of Investment in OTHI, P21 and NGCP	Consolidated Statement of Cash Flow of SGDPI
Net cash flows provided by operating activities	P1,937,714	P1,210,353,363	(P23,734,867)	P32,161,908,973	P -	P33,350,465,183
Net cash flows used in investing activities	-	4,500,507,994	4,500,087,874	(39,363,718,410)	(9,000,000,000)	(39,363,122,542)
Net cash flows used in financing activities	-	(5,771,135,000)	(4,481,161,351)	9,767,555,127	9,000,000,000	8,515,258,776
Effect of exchange rate changes in cash and cash equivalents	(15,386)	(19,508)	(31,146)	(113,416,351)	-	(113,482,391)
Net increase (decrease) in cash and cash equivalents	1,922,328	(60,293,151)	(4,839,490)	2,452,329,339	-	2,389,119,026
Cash and cash equivalents at beginning of year	6,277,275	225,097,083	121,465,823	13,273,453,303	-	13,626,293,484
Cash and cash equivalents at end of year	P8,199,603	P164,803,932	P116,626,333	P15,725,782,642	P -	P16,015,412,510

2018

Adjustment from the Retrospective Application of Pooling of Interest Method for  
Business Combination of Entities Under Common Control

	Statement of Cash Flow of SGDPI	Consolidated Statement of Cash Flow of OTHI	Consolidated Statement of Cash Flow of P21	Statement of Cash Flow of NGCP	Elimination of Investment in OTHI, P21 and NGCP	Consolidated Statement of Cash Flow of SGDPI
Net cash flows provided by operating activities	(P321,993)	(P1,150,100,801)	(P3,965,596)	P36,767,322,714	P -	P35,612,934,324
Net cash flows used in investing activities	-	5,400,507,995	5,400,147,415	(33,866,452,417)	(10,800,000,000)	(33,865,797,007)
Net cash flows used in financing activities	-	(5,405,356,490)	(6,702,971,400)	(5,364,780,002)	10,800,000,000	(6,673,107,892)
Effect of exchange rate changes in cash and cash equivalents	21,687	22,330	42,912	(68,799,958)	-	(68,713,029)
Net decrease in cash and cash equivalents	(300,306)	(1,154,926,966)	(1,306,746,669)	(2,532,709,663)	-	(4,994,683,604)
Cash and cash equivalents at beginning of year	6,577,581	1,380,024,049	1,428,212,492	15,806,162,966	-	18,620,977,088
Cash and cash equivalents at end of year	P6,277,275	P225,097,083	P121,465,823	P13,273,453,303	P -	P13,626,293,484

Adjustments from the retrospective applicable of business combination under common control follows:

a. Share Swap Transaction

This represents the issuance of 2,050,200,000 new common shares with a par value of P1.00 to each of the two major shareholders of OTHI and P21 as consideration for the acquisition by the SGDPI under a Share Swap Transaction of the major shareholder's investment in 86,430,000 with par value of P100 shares of OTHI and 871,000,000 with par value of P1 of P21, respectively.

The details of the share swap transaction follow:

	Note	Percentage of Ownership	Amount
Transfer value as approved by SEC:	1		
OTHI		67%	P41,004,000,000
P21		67%	41,004,000,000
			<b>82,008,000,000</b>
Par value of shares issued by SGDPI			<b>4,100,400,000</b>
Additional paid-in capital of SGDPI			<b>P77,907,600,000</b>

b. Elimination of investments in OTHI and P21 follow:

2020	OTHI	P21	NGCP	Total
Equity attributable to equity holders of the Parent Company:				
Capital stock	P12,900,000,000	P1,300,000,000	P2,000,000,000	P16,200,000,000
Additional paid-in-capital	3,208,700,000	-	44,843,375,000	48,052,075,000
Equity adjustments from common control transactions	33,226,171,000	40,133,000,000	-	73,359,171,000
Share in other comprehensive income (loss) of an associate	(113,410,828)	(113,410,828)	-	(226,821,656)
Hedging reserve	-	-	-	-
Remeasurements gains(losses) on defined benefit liability	-	-	(226,065,583)	(226,065,583)
Retained earnings	(11,821,178,004)	(7,590,524,866)	37,619,233,109	18,207,530,239
Non-controlling interests	9,878,852,266	13,572,670,703	(48,870,066,017)	(25,418,543,048)
Goodwill	133,453,217	110,852,642	-	244,305,859
Investment in associate	(6,408,587,651)	(6,408,587,651)	(35,366,476,509)	(48,183,651,811)
	<b>41,004,000,000</b>	<b>41,004,000,000</b>	<b>-</b>	<b>82,008,000,000</b>
Transfer value	<b>41,004,000,000</b>	<b>41,004,000,000</b>	<b>-</b>	<b>82,008,000,000</b>
	<b>P -</b>	<b>P -</b>	<b>P -</b>	<b>P -</b>
<b>2019</b>	<b>OTHI</b>	<b>P21</b>	<b>NGCP</b>	<b>Total</b>
Equity attributable to equity holders of the Parent Company:				
Capital stock	P12,900,000,000	P1,300,000,000	P2,000,000,000	P16,200,000,000
Additional paid-in-capital	3,208,700,000	-	44,843,375,000	48,052,075,000
Equity adjustments from common control transactions	33,226,171,000	40,133,000,000	-	73,359,171,000
Share in other comprehensive income (loss) of an associate	(57,929,919)	(57,929,919)	-	(115,859,838)
Hedging reserve	-	-	-	-
Remeasurements gains(losses) on defined benefit liability	-	-	(115,473,638)	(115,473,638)
Retained earnings	(11,694,673,743)	(7,465,009,354)	28,368,214,922	9,208,531,825
Non-controlling interests	6,303,342,225	9,998,149,411	(39,729,639,775)	(23,428,148,139)
Goodwill	133,453,217	110,852,642	-	244,305,859
Investment in associate	(3,015,062,780)	(3,015,062,780)	(35,366,476,509)	(41,396,602,069)
	<b>41,004,000,000</b>	<b>41,004,000,000</b>	<b>-</b>	<b>82,008,000,000</b>
Transfer value	<b>41,004,000,000</b>	<b>41,004,000,000</b>	<b>-</b>	<b>82,008,000,000</b>
	<b>P -</b>	<b>P -</b>	<b>P -</b>	<b>P -</b>

*Equity Adjustments from Common Control Transactions*

This account represents the excess of transfer value over the net assets of OTHI and P21 attributable to the ownership of the major stockholder of OTHI and P21. Details are as follows:

	OTHI	P21	Total
Transfer value	P41,004,000,000	P41,004,000,000	P82,008,000,000
Net assets acquired	7,777,829,000	871,000,000	8,648,829,000
Equity adjustments from common control transactions	P33,226,171,000	P40,133,000,000	P73,359,171,000

- c. Certain accounts in the consolidated statements of financial position were reclassified for consistency of financial statements presentation. The reclassifications had no effect on the reported performance for any period presented.

## 7. Non-controlling Interests

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

	December 31, 2020			December 31, 2019		
	Consolidated OTHI	Consolidated P21	NGCP	Consolidated OTHI	Consolidated P21	NGCP
Percentage of non-controlling interests	33%	33%	59.8%	33%	33%	59.8%
Carrying amount of non-controlling interests	(P9,878,852,266)	(P13,572,670,703)	P48,870,066,017	(P6,303,342,225)	(P9,998,149,411)	P39,729,639,775
Net income attributable to non-controlling interest	(P5,510,041)	(P4,521,292)	P14,051,018,187	P1,037,964	(P1,061,280)	P11,978,151,763
Other comprehensive income attributable to non-controlling interests	P -	P -	(P110,591,945)	P -	P -	(P118,336,153)
Dividends paid to non-controlling interests	P3,570,000,000	P3,570,000,000	P4,800,000,000	P4,538,135,000	P4,480,000,000	P6,000,000,000

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

	December 31, 2020			December 31, 2019		
	Consolidated OTHI	Consolidated P21	NGCP	Consolidated OTHI	Consolidated P21	NGCP
Current assets	P152,303,290	P112,725,565	P61,640,211,279	P171,407,719	P125,114,872	P57,290,541,173
Noncurrent assets	34,334,207,236	24,081,307,700	271,974,196,540	30,944,730,825	20,688,686,160	239,323,334,817
Current liabilities	(90,485,534)	(905,636,029)	(72,696,826,195)	(112,688,233)	(920,974,688)	(53,279,925,801)
Noncurrent liabilities	-	-	(181,018,671,704)	-	-	(174,746,789,838)
Net assets	P34,396,024,992	P23,288,397,236	P79,898,909,920	P31,003,450,311	P19,892,826,344	P68,587,160,351
Revenues/income	P7,056,399,978	P7,055,830,334	P48,606,604,103	P6,047,006,691	P6,027,586,957	P45,396,541,091
Net income	P7,018,055,590	P7,021,051,801	P23,496,685,932	P6,006,251,580	P5,999,890,237	P20,030,354,118
Other comprehensive loss	(55,480,909)	(55,480,909)	(184,936,363)	(59,365,963)	(59,365,963)	(197,886,544)
Total comprehensive income	P6,962,574,681	P6,965,570,892	P23,311,749,569	P5,946,885,617	P5,940,524,274	P19,832,467,574
Cash flows provided by (used in) operating activities	(P51,614,042)	(P44,081,685)	P44,166,430,421	P1,210,353,363	(P23,734,867)	P32,161,908,973
Cash flows provided by (used in) investing activities	3,600,000,000	3,599,920,294	(41,610,444,940)	4,500,507,994	4,500,087,874	(39,363,718,410)
Cash flows provided by (used in) financing activities	(3,570,000,000)	(3,570,638,489)	(4,599,885,358)	(5,771,135,000)	(4,481,161,351)	9,767,555,127
Effect of exchange rate changes on cash and cash equivalents	(35,180)	(49,722)	(102,194,795)	(19,508)	(31,146)	(113,416,351)
Net increase (decrease) in cash and cash equivalents	(P21,649,222)	(P14,849,602)	(P2,146,094,672)	(P60,293,151)	(P4,839,490)	P2,452,329,339

## 8. Intangible Asset - net

This account at December 31 consists of:

	Note	2020	2019
Concession fee	2, 5	<b>P160,296,289,265</b>	P160,296,289,265
Cost of completed projects	2	<b>75,811,420,885</b>	71,490,931,220
Computer software	3	<b>480,126,986</b>	383,223,886
		<b>236,587,837,136</b>	232,170,444,371
Less accumulated amortization		<b>88,655,873,293</b>	80,249,158,574
		<b>147,931,963,843</b>	151,921,285,797
Contract assets		<b>119,822,764,157</b>	82,906,381,376
		<b>P267,754,728,000</b>	P234,827,667,173

### Concession Fee

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

Amortization expense recognized in profit or loss amounted to P6.38 billion in 2020, 2019 and 2018.

### 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 P2.0 billion, P1.76 billion and P1.51 billion in 2020, 2019 and 2018, respectively.

### Contract Assets

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

### Computer Software and License

This pertains to the costs incurred for the Enterprise Resource Planning (ERP) Project, Enterprise Document Management System (EDMS), Integrated Human Resource Application (IHRA), Integrated Meter Data Validation System (IMDVS), Medical Information System (MEDYSIS) and Visitor's Management System (VMS) amounting to P480.13 million and P383.22 million as at December 31, 2020 and 2019, respectively.

Amortization expense recognized in profit or loss amounted to P32.59 million, P19.16 million and P19.04 million in 2020, 2019 and 2018, respectively.

The movements and balances of the accounts are as follows:

	Per Concession Right				Computer Software	Total
	Concession Fee	Completed Projects	Contract Assets	Total		
<b>Cost</b>						
January 1, 2019	P160,296,289,265	P63,529,531,353	P58,570,004,937	P282,395,825,555	P383,223,886	P282,779,049,441
Additions/adjustments	-	7,961,399,867	24,336,376,439	32,297,776,306	-	32,297,776,306
December 31, 2019	160,296,289,265	71,490,931,220	82,906,381,376	314,693,601,861	383,223,886	315,076,825,747
Additions/Adjustments	-	4,320,489,665	36,916,382,781	41,236,872,446	96,903,100	41,333,775,546
<b>December 31, 2020</b>	<b>160,296,289,265</b>	<b>75,811,420,885</b>	<b>119,822,764,157</b>	<b>355,930,474,307</b>	<b>480,126,986</b>	<b>356,410,601,293</b>
<b>Accumulated Amortization</b>						
January 1, 2019	64,661,174,840	7,123,754,107	-	71,784,928,947	306,579,109	72,091,508,056
Additions/adjustments	6,375,674,293	1,762,815,031	-	8,138,489,324	19,161,194	8,157,650,518
December 31, 2019	71,036,849,133	8,886,569,138	-	79,923,418,271	325,740,303	80,249,158,574
Additions/adjustments	6,375,674,298	1,998,446,761	-	8,374,121,059	32,593,660	8,406,714,719
<b>December 31, 2020</b>	<b>77,412,523,431</b>	<b>10,885,015,899</b>	<b>-</b>	<b>88,297,539,330</b>	<b>358,333,963</b>	<b>88,655,873,293</b>
<b>Net Carrying Amount</b>						
December 31, 2019	P89,259,440,132	P62,604,362,082	P82,906,381,376	P234,770,183,590	P57,483,583	P234,827,667,173
<b>December 31, 2020</b>	<b>P82,883,765,834</b>	<b>P64,926,404,986</b>	<b>P119,822,764,157</b>	<b>P267,632,934,977</b>	<b>P121,793,023</b>	<b>P267,754,728,000</b>

## 9. Goodwill

Goodwill amounting to P10.47 billion as at December 31, 2020 and 2019 arose 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 are 8.1%, 8.5% and 8.1% in 2020, 2019 and 2018, respectively, and are based on Group's expectations of market developments and past historical performance. The discount rates applied to after tax cash flow projections are 10.67%, 15.04%, 15.4% in 2020, 2019 and 2018, respectively. The discount rate also imputes the risk of the cash-generating units compared to the respective risk of the overall market and equity risk premium. The recoverable amount of goodwill has been categorized as Level 3 in the fair value hierarchy based on the inputs used in the valuation technique (Note 3).

No impairment loss was recognized for goodwill in 2020, 2019 and 2018.

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 accounts are as follows:

	Structures and Improvements	Transportation Equipment	Machinery and Equipment	Office Furniture and Fixtures	Total
<b>Cost</b>					
January 1, 2019	P153,342,170	P2,263,789,974	P3,951,399,859	P3,830,041	P9,972,626,704
Additions during the year	50,703,586	403,743,985	446,030,921	225,946,981	1,126,425,473
December 31, 2019	204,045,756	2,667,533,959	4,397,430,780	3,830,041,682	11,099,052,177
Additions during the year	5,656,864	43,886,063	283,818,729	136,288,942	469,650,598
Disposals	-	-	-	(506,693)	(506,693)
<b>December 31, 2020</b>	<b>209,702,620</b>	<b>2,711,420,022</b>	<b>4,681,249,509</b>	<b>3,965,823,931</b>	<b>11,568,196,082</b>
<b>Accumulated Depreciation</b>					
January 1, 2019	26,936,312	1,462,661,260	2,613,555,291	2,138,646,090	6,241,798,953
Depreciation during the year	19,931,484	258,356,896	177,302,437	225,727,909	681,318,726
December 31, 2019	46,867,796	1,721,018,156	2,790,857,728	2,364,373,999	6,923,177,679
Depreciation during the year	20,126,965	225,513,045	192,010,017	233,039,070	670,689,097
Disposals	-	-	-	(506,693)	(506,693)
<b>December 31, 2020</b>	<b>66,994,761</b>	<b>1,946,531,201</b>	<b>2,982,867,745</b>	<b>2,596,906,376</b>	<b>7,593,300,083</b>
<b>Net Carrying Amount</b>					
December 31, 2019	P157,177,960	P946,515,803	P1,606,573,052	P1,465,667,683	P4,175,934,498
<b>December 31, 2020</b>	<b>P142,707,859</b>	<b>P764,888,821</b>	<b>P1,698,381,764</b>	<b>P1,368,917,555</b>	<b>P3,974,895,999</b>

## 11. Cash and Cash Equivalents

This account at December 31 consists of:

	<i>Note</i>	<b>2020</b>	2019
Cash on hand		<b>P8,518,369</b>	P7,355,205
Cash in banks	24	<b>6,809,069,889</b>	2,366,451,063
Short-term placements	24	<b>7,263,596,200</b>	13,641,606,242
		<b>P14,081,184,458</b>	P16,015,412,510

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 0.50% to 3.75%, 2.22% to 6.85% and 2.25% to 7.44% in 2020, 2019 and 2018, respectively. Interest income earned amounted to P256.25 million, P306.25 million and P271.06 million in 2020, 2019 and 2018, respectively.

## 12. Receivables

This account at December 31 consists of:

### A. Current Receivables

	<i>Note</i>	<b>2020</b>	2019
Power receivables	24	<b>P3,980,405,660</b>	P3,894,300,030
Due from customers	15, 24	<b>2,937,787,061</b>	2,132,563,048
Accrued transmission revenue	19	<b>4,596,911,332</b>	1,635,210,143
Output VAT receivable		<b>1,857,458,314</b>	1,311,006,586
Due from officers and employees and other receivables	24	<b>172,372,675</b>	148,121,869
Restructured power receivables	24	<b>22,660,698</b>	22,148,572
Interest receivable	24	<b>10,051,675</b>	43,087,326
		<b>P13,577,647,415</b>	P9,186,437,574

### B. Noncurrent Receivables

	<i>Note</i>	<b>2020</b>	2019
Restructured power receivables		<b>P1,428,490,332</b>	P1,446,903,725
Power receivables		<b>117,962,549</b>	148,015,472
Due from customers		<b>433,619,636</b>	387,306,954
	24	<b>1,980,072,517</b>	1,982,226,151
Less allowance for impairment losses		<b>1,877,458,659</b>	1,812,788,659
		<b>P102,613,858</b>	P169,437,492

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

	<b>2020</b>	2019
Balance at beginning of year	<b>P1,812,788,659</b>	P1,748,118,659
Provision for impairment losses on receivables during the year	<b>64,670,000</b>	64,670,000
Balance at end of year	<b>P1,877,458,659</b>	P1,812,788,659

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

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 P9.73 million and P42.61 million as at December 31, 2020 and 2019, 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 Current Assets

This account at December 31 consists of:

	2020	2019
Advance payment to suppliers and contractors	<b>P14,871,344,502</b>	P14,712,518,859
Materials, supplies and spare parts in transit	<b>8,716,515,030</b>	9,162,946,257
Court and other deposits	<b>4,562,955,612</b>	2,677,123,429
Materials, supplies and spare parts - net	<b>4,365,937,800</b>	4,134,123,199
Input VAT	<b>1,401,879,676</b>	1,222,608,657
Other deposits	<b>421,123,454</b>	349,995,014
Prepaid expenses	<b>130,727,405</b>	99,367,053
Other supplies	<b>23,187,813</b>	25,444,977
Guaranty deposit	<b>9,072,835</b>	9,072,835
Calamity loan fund	<b>229,181</b>	213,003
	<b>P34,502,973,308</b>	P32,393,413,283

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 P13.43 billion and P13.64 billion as at December 31, 2020 and 2019, respectively, which resulted to an accumulated write-down amount of P346.27 million as at December 31, 2020 and 2019.

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 consolidated statements of income amounted to P177.98 million, P301.44 million and P231.57 million in 2020, 2019 and 2018, respectively.

#### 14. Loans Payable

##### Outstanding Balance and Maturities

Outstanding balance of loans payable at December 31 is presented below:

	<i>Note</i>	2020	2019
<b><i>Loan Facilities (net of debt issuance costs)</i></b>			
Fixed-rate peso corporate notes		<b>P50,163,990,115</b>	P57,882,616,083
Peso denominated term loan		<b>85,521,331,905</b>	70,286,150,265
	24	<b>135,685,322,020</b>	128,168,766,348
Less current portion		<b>13,181,457,762</b>	11,544,872,835
		<b>P122,503,864,258</b>	P116,623,893,513

Movements in debt issuance costs are as follows:

	2020	2019
Balance at beginning of year	<b>P866,233,652</b>	P746,873,515
Debt issuance costs during the year	<b>154,161,291</b>	297,435,434
Amortization during the year	<b>(200,716,963)</b>	(178,075,297)
Balance at end of year	<b>P819,677,980</b>	P866,233,652

### Repayment Schedule

As at December 31, 2020, the annual maturities of loans payable are as follows:

<b>Year</b>	<b>Gross Amount</b>	<b>Debt Issuance Costs</b>	<b>Net</b>
<b>2021</b>	<b>P13,365,000,000</b>	<b>P183,542,238</b>	<b>P13,181,457,762</b>
<b>2022</b>	<b>14,335,000,000</b>	<b>162,996,628</b>	<b>14,172,003,372</b>
<b>2023</b>	<b>20,725,000,000</b>	<b>123,085,814</b>	<b>20,601,914,186</b>
<b>2024</b>	<b>19,770,000,000</b>	<b>98,619,498</b>	<b>19,671,380,502</b>
<b>2025</b>	<b>16,240,000,000</b>	<b>85,323,984</b>	<b>16,154,676,016</b>
<b>More than 5 years</b>	<b>52,070,000,000</b>	<b>166,109,818</b>	<b>51,903,890,182</b>
	<b>P136,505,000,000</b>	<b>P819,677,980</b>	<b>P135,685,322,020</b>

As at December 31, 2019, the annual maturities of loans payable are as follows:

<b>Year</b>	<b>Gross Amount</b>	<b>Debt Issuance Costs</b>	<b>Net</b>
2020	P11,730,000,000	P185,127,165	P11,544,872,835
2021	12,975,000,000	166,514,231	12,808,485,769
2022	13,995,000,000	145,989,847	13,849,010,153
2023	20,285,000,000	106,236,879	20,178,763,121
2024	18,760,000,000	85,219,138	18,674,780,862
More than 5 years	51,290,000,000	177,146,392	51,112,853,608
	<b>P129,035,000,000</b>	<b>P866,233,652</b>	<b>P128,168,766,348</b>

### Details, Description and Terms of the Loans

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

#### *Financing of Capital Expenditures*

- a. The Group, through NGCP, entered into a P4.2 billion from P7.00 billion, P1.00 billion, P10.00 billion, P3.00 billion from P6.0billion, and P1.00 billion Peso Bilateral Unsecured Term Loan which was 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 P1.0 billion and Ten-year Peso Bilateral Unsecured Term Loan for P10.0 billion and the balance of P4.2 billion from P7.00 billion term loan, Ten-year Peso Bilateral Unsecured Term Loan for P6.0 billion, and Five-year Peso Bilateral Unsecured Term Loan for P1.0 billion drawn as at December 31, 2020. The applicable interest rate for the P1.0 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 P10.0 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 P4.2 billion from P7.0 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 P6.0 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 P1.0 billion, the applicable interest rate shall be the Interest Rate for the period beginning on the Drawdown Date until the Maturity Date.
- b. The Group, through NGCP, entered into a P5.00 billion, P5.00 billion, P2.00 billion, P15.00 billion, P2.8 billion from P7.00 billion Peso Bilateral Unsecured Term Loan which was drawn on March 29, 2019, June 17, 2019, September 30, 2019, December 05, 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 P2.8 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.
- c. 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.

- d. 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.
- e. 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 was 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.
- f. In September 2017, the Group, through NGCP, entered into a P5 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 in 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.
- g. 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.

- h. 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.
- i. In April 2014, the Group, through NGCP, entered into a P21.00 billion Peso Corporate Financing Facility to cover its funding requirements for calendar year 2014 including the financing of maturing obligations and approved capital expenditures. Initial drawdown amounting to P6.00 billion was made on April 10, 2014 to pay off the maturing US Dollar Bridge Loan. The succeeding drawdown of P8.00 billion, P5.00 billion and P2.00 billion were made on July 10, 2014, December 10, 2014 and January 30, 2015, respectively, to cover the funding of the Group's capital expenditures. Terms of these loans include Ten-year, Unsecured Corporate Notes Facility with a consortium of nine (9) local banks for P21.00 billion, of which P19.00 billion has been drawn as at December 31, 2014 and P2.00 billion has been drawn as at December 31, 2015. It bears an interest based on 5-yr PDST-F plus spread and the principal payable beginning on the 12<sup>th</sup> month from initial issue date and the remaining for eighteen (18) semi-annual installments as a percentage of principal amount of borrowing. Amendment was made effective April 10, 2019. Interest rate from 5-yr PDST-F to 5-yr BVal and noteholders were decreased to four (4).

Interest from these loans amounting to P4.41 billion, P3.52 billion and P2.10 billion in 2020, 2019 and 2018, respectively, were capitalized and recognized in Contract Assets under "Intangible asset" in the consolidated statements of financial position (see Note 8). Interest expense recognized in profit or loss amounted to P2.19 billion, P2.38 billion and P1.70 billion in 2020, 2019 and 2018, 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. To hedge both the foreign currency and interest rate risks exposures on US dollar denominated term loan facilities, the Group entered into cross-currency swap transactions.

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 P1.11 billion, P1.32 billion and P1.39 billion in 2020, 2019 and 2018, respectively.

These loan agreements contain, among others, covenants relating to the Concession Agreement and maintenance of Debt-to-Equity (DE) ratio and Debt-to-Service Coverage Ratio (DSCR), including requirements before payment of dividends. As at December 31, 2020 and 2019, DE ratio and DSCR should not be less than 1.15 and should not be more than 4.1, respectively. As at December 31, 2020 and 2019, 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:

	<b>Loans Payable</b>
Balance at January 1, 2020	<b>P128,168,766,348</b>
Changes from financing cash flows:	
Proceeds from loans	<b>19,200,000,000</b>
Payment of loans payable	<b>(11,683,444,328)</b>
Total liability-related changes	<b>7,516,555,672</b>
<b>Balance at December 31, 2020</b>	<b>P135,685,322,020</b>

	<b>Loans Payable</b>
Balance at January 1, 2019	P103,278,126,485
Changes from financing cash flows:	
Proceeds from loans	34,300,000,000
Payment of loans payable	(9,409,360,137)
Total liability-related changes	24,890,639,863
Balance at December 31, 2019	P128,168,766,348

## 15. Trade and Other Current Payables

This account at December 31 consists of:

	<i>Note</i>	<b>2020</b>	2019
Accrued expenses			
Project related		<b>P11,082,318,321</b>	P5,534,470,672
Salaries and employee benefits		<b>1,523,830,102</b>	1,447,737,820
Substation utilities and other expenses		<b>364,627,704</b>	379,869,755
Taxes/Regulatory fees		<b>94,211,495</b>	94,456,881
Others		<b>530,511,912</b>	424,844,221
	24	<b>13,595,499,534</b>	7,881,379,349
Accounts payable	24	<b>26,678,220,969</b>	18,115,255,109
Due to government agencies and others		<b>6,344,622,442</b>	4,729,029,190
Interest payable	5, 14, 24	<b>4,078,026,367</b>	3,601,627,345
Franchise tax payable to BIR	18	<b>235,020,198</b>	236,598,494
		<b>P50,931,389,510</b>	P34,563,889,487

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 23).

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 18 and 26).

## 16. Other Liabilities

This account at December 31 consists of:

### A. Other Current Liabilities

	<i>Note</i>	2020	2019
Retention on contract payments		<b>P6,630,402,047</b>	P5,214,662,854
Advances for construction		<b>1,921,482,530</b>	1,943,213,230
Advances from shareholders	20	<b>618,750,400</b>	368,698,917
Advances from a subsidiary's minority interest		<b>474,730,215</b>	474,730,215
Bidders/suppliers deposits		<b>185,545,170</b>	203,974,301
Others		<b>32</b>	1,305
	<b>24</b>	<b>P9,830,910,394</b>	P8,205,280,822

### B. Other Noncurrent Liabilities

	<i>Note</i>	2020	2019
Advances for construction		<b>P1,740,107,863</b>	P1,755,676,013
Lease liability	21	<b>27,607,346</b>	86,594,278
	<b>24</b>	<b>P1,767,715,209</b>	P1,842,270,291

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.

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## 17. Equity

Capital stock consists of:

	<b>Number of Shares</b>	<b>Amount</b>
Authorized shares (at P1 par value per share) Common	<b>5,050,000,000</b>	<b>P5,050,000,000</b>
Issued shares Common	<b>4,149,866,000</b>	<b>P4,149,866,000</b>

As at December 31, 2020, 2019 and 2018, the Parent Company's offer price is P242, P195, and P536, 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 per share to P5.05 billion divided into 5.05 billion common shares at par value of P1 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.

### *Cash Dividends*

There were no dividends declared by the Parent Company in 2020, 2019 and 2018.

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.

In 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 billion pertains to the share of the Parent Company which is eliminated during consolidation.

In 2018, the BOD of OTHI approved the declaration of cash dividends and stock dividends amounting to P5.34 billion and P2.9 billion, respectively, to all shareholders of record as of date of the meeting. The incremental costs directly attributable to the issuance of common shares amounting to P37.36 million which is eliminated during consolidation.

In 2018, the BOD of P21 approved the declaration of cash dividends amounting to P5.38 billion to all shareholders of record as of date of the meeting.

In 2018, the BOD of NGCP approved the declaration of cash dividends amounting to P18 billion to all shareholders of record as of date of the meeting. Of the total amount declared, P10.80 billion pertains to the share of the Parent Company which is eliminated during consolidation.

#### *Retained Earnings*

The retained earnings of the Group includes the accumulated earnings in subsidiaries not available for declaration as dividends until declared by the respective investee.

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## **18. Franchise Tax**

As discussed in Note 1 to the consolidated financial statements, in consideration of the franchise and rights granted by R.A. 9511, the Group is required to pay a franchise tax equivalent to three percent (3%) of all gross receipts/actual collection derived from its operations under the franchise, in lieu of income tax and any and all taxes, duties, fees and charges of any kind, nature or description levied, established or collected on its franchise, rights, privileges, receipts, revenues and profits, and on properties used in connection with its franchise except for real property tax on real estate, buildings and personal property, exclusive of the franchise.

In view thereof, the Group's income from business activities included within the scope of its authority under Section 1 of R.A. 9511 is exempt from income tax, and consequently from withholding taxes, minimum corporate income tax (MCIT), improperly accumulated earnings tax (IAET), Value-Added Tax (VAT) and documentary stamp tax (DST). Subsequently, effective January 1, 2018, the implementation of TRAIN Law has changed the classification of NGCP from non-VAT to VAT entity which made all transactions affected therein to be subject to VAT (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 Group adopted an accounting treatment for franchise tax that upon billing to its customers, both franchise tax receivable and franchise tax payable to BIR are set-up. As such, franchise tax recovery is not recognized in the profit or loss in view of the pass-through nature of the 3% national franchise tax (see Note 15).

## 19. Revenues

This account at December 31 consists of:

	Note	2020	2019	2018
Transmission services operating income	26	<b>P47,051,639,600</b>	P43,789,049,920	P43,782,111,886
Connection and residual sub-transmission income	26	<b>1,554,964,503</b>	1,556,936,934	1,567,696,675
Gain/discount on transmission service		-	50,554,237	52,194,442
		<b>P48,606,604,103</b>	P45,396,541,091	P45,402,003,003

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.

Gains on transmission service is due to the combined effect of several factors, such as exchange rate and levels of regulated and excluded services rates for dollar customers under Executive Order 666.

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	Gain on Transmission Service	Total
Luzon	<b>P32,804,158,710</b>	<b>P857,486,079</b>	P -	<b>P33,661,644,789</b>
Distribution utilities	<b>P31,362,402,695</b>	<b>P771,652,694</b>	P -	<b>P32,134,055,389</b>
Generators	<b>191,491,775</b>	<b>5,533,035</b>	-	<b>197,024,810</b>
Directed Connected/ Non-DUs	<b>1,250,264,240</b>	<b>80,300,350</b>	-	<b>1,330,564,590</b>
Visayas	<b>P5,288,839,834</b>	<b>P248,552,785</b>	P -	<b>P5,537,392,619</b>
Distribution utilities	<b>P4,925,124,846</b>	<b>P235,527,917</b>	P -	<b>P5,160,652,763</b>
Generators	<b>110,592,697</b>	<b>28,907</b>	-	<b>110,621,604</b>
Directed Connected/ Non-DUs	<b>253,122,291</b>	<b>12,995,961</b>	-	<b>266,118,252</b>
Mindanao	<b>P5,996,051,056</b>	<b>P448,925,639</b>	P -	<b>P6,444,976,695</b>
Distribution utilities	<b>P5,849,601,091</b>	<b>P441,414,420</b>	P -	<b>P6,291,015,511</b>
Generators	<b>64,865,712</b>	-	-	<b>64,865,712</b>
Directed Connected/ Non-DUs	<b>81,584,253</b>	<b>7511,219</b>	-	<b>89,095,472</b>
Accruals for iMAR and Under-recovery	<b>P2,962,590,000</b>	P -	P -	<b>P2,962,590,000</b>
<b>December 31, 2020 Total</b>	<b>P47,051,639,600</b>	<b>P1,554,964,503</b>	<b>P -</b>	<b>P48,606,604,103</b>

	Transmission Services Operating Income	Connection and Residual Sub-transmission Income	Gain on Transmission Service	Total
Luzon	P32,579,053,240	P858,835,638	P50,554,237	P33,488,443,115
Distribution utilities	P30,937,275,452	P772,875,309	P -	P31,710,150,761
Generators	224,819,065	5,539,166	-	230,358,231
Directed Connected/ Non-DUs	1,416,958,723	80,421,163	50,554,237	1,547,934,123
Visayas	P5,254,686,263	P248,678,184	P -	P5,503,364,447
Distribution utilities	P4,915,624,328	P235,638,882	P -	P5,151,263,210
Generators	87,029,166	28,939	-	87,058,105
Directed Connected/ Non-DUs	252,032,769	13,010,363	-	265,043,132
Mindanao	P5,955,310,417	P449,423,112	P -	P6,404,733,529
Distribution utilities	P5,789,108,785	P441,992,882	P -	P6,231,101,667
Generators	85,632,426	-	-	85,632,426
Directed Connected/ Non-DUs	80,569,206	7,430,230	-	87,999,436
December 31, 2019 Total	P43,789,049,920	P1,556,936,934	P50,554,237	P45,396,541,091

	Transmission Services Operating Income	Connection and Residual Sub-transmission Income	Gain/Discount on Transmission Service	Total
Luzon	P31,076,966,890	P753,799,710	P52,194,442	P31,882,961,042
Distribution utilities	P29,105,716,255	P650,173,230	P -	P29,755,889,485
Generators	217,275,007	7,127,730	-	224,402,737
Industrial customers	1,577,450,219	83,234,007	52,194,442	1,712,878,668
Other customers	176,525,409	13,264,743	-	189,790,152
Visayas	P6,241,384,906	P309,626,799	P -	P6,551,011,705
Distribution utilities	P5,801,602,139	P293,333,041	P -	P6,094,935,180
Generators	106,432,616	34,755	-	106,467,371
Industrial customers	333,350,151	16,259,003	-	349,609,154
Mindanao	P6,463,760,090	P504,270,166	P -	P6,968,030,256
Distribution utilities	P6,254,335,066	P489,885,429	P -	P6,744,220,495
Generators	42,665,596	-	-	42,665,596
Industrial customers	163,995,434	14,134,381	-	178,129,815
Other customers	2,763,994	250,356	-	3,014,350
December 31, 2018 Total	P43,782,111,886	P1,567,696,675	P52,194,442	P45,402,003,003

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 revenue cap methodology.

During 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.

The Group is now on its Fourth Regulatory Period of January 2016 to December 2020. Notably, however, the regulatory reset process for the transmission and distribution under the performance-based regulation has been delayed. Under the RTWR, the Group would have filed its revenue application for the Fourth Regulatory Period (2016 to 2020) in 2015. To bridge the gap, the Group filed an Application for the Approval of an Interim MAR 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 Fourth Regulatory Period, thus the billing of an iMAR of P43,789.05 in 2018 and 2019.

On October 29, 2019, NGCP filed an application with the ERC for the Approval of an Interim Maximum Annual Revenue for Calendar Year 2020 (iMAR<sub>2020</sub>) in the amount of P58,846 million, docketed as ERC Case No. 2019-086RC. Subsequently, the ERC, in its Order dated February 13, 2020, granted NGCP a provisional authority to implement an iMAR<sub>2020</sub> in the amount of P47,051.64 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<sub>2020</sub> differential in the total amount of P300 million for both billing months of July and August 2020. However, in September 2020, the ERC directed the suspension of the billing of the iMAR<sub>2020</sub> providing among others that the demand forecast used in the determination are no longer valid and would need to be re-assessed. In compliance with the Order issued in September 2020, NGCP discontinued the billing resulting in an unbilled iMAR<sub>2020</sub> differential in the amount of P2,962.59 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<sub>2020</sub>.

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

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

- a. Updated Actual Demand for Year 2020;
- b. Detailed Analysis and Basis of the Forecast Demand for Year 2021;
- c. Updated Rate Movement on a Per kW and per kWh as of December 2020;
- d. Updated Actual and Forecast CAPEX for Calendar Years 2011 to 2020;

- e. Estimated Demand Data particularly for the Battery Energy Storage System (BESS) and transmission services to the Kalayaan Pumped Storage Power Plant (KPSPP) which NGCP included in the said forecast; and
- f. Load Billing Determinant with and without BESS and KPSPP.

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

In view of the foregoing, Management assessed that the suspension order merely defers the implementation of the P47 billion, and that there is no other ERC issuance or directive that states otherwise (i.e. that revenue has been modified), similar to the practice adopted by the industry.

## 20. Related Party Disclosures

The Group's balances and transactions with related parties are as follows:

Relationship with Related Parties	Year	Note	Amount of the Transaction	Outstanding Balance	Terms	Conditions
<b>Companies with the Same BOD</b>						
▪ PGAI	2020	a	<b>P282,058,318</b>	<b>P7,915,713</b>	On demand, non-interest bearing	Unsecured
	2019	a	208,513,302	20,679,597		
	2018	a	66,789,883	6,161,271		
▪ SMDC	2020	b	<b>3,370,500</b>	<b>2,565,000</b>	On demand, non-interest bearing	Unsecured
	2019	b	5,296,500	-		
	2018	b	3,339,000	-		
<b>Shareholders</b>						
	2020	c	<b>250,051,483</b>	<b>618,750,400</b>		
	2019	c	-	368,698,917		
	2018	c	-	368,698,917		
<b>Key Management Personnel</b>						
▪ Short-term benefits	2020	d	<b>322,917,666</b>	-		
	2019	d	383,361,373	-		
	2018	d	411,705,192	-		
▪ Post-employment Benefits	2020	d	<b>22,664,554</b>	-		
	2019	d	18,643,029	-		
	2018	d	13,240,000	-		
	<b>2020</b>			<b>P629,231,113</b>		
	2019			P389,378,514		
	2018			P374,860,188		

- a. The Group, through NGCP, has related party transactions with Prudential Guaranty Assurance, Inc. (PGAI) amounting to P282.06 million, P208.51 million and P66.79 million in 2020, 2019 and 2018, respectively, representing insurance premiums. This pertains to motor vehicle insurance, aviation, commercial general liability insurance, PGA protect, motor comprehensive, industrial all risk, engineering electronic equipment insurance and warehouse insurance in nature. The outstanding insurance payable to PGAI amounting to P7.92 million and P20.68 million as of December 31, 2020 and 2019 are recorded under the "Trade and other current payables" account in the consolidated statements of financial position.

- b) The Group, through NGCP, has existing lease agreement for parking space with SM Development Corporation (SMDC) amounting to P3.37 million, P5.28 million and P3.34 million in 2020, 2019 and 2018, respectively. The outstanding balance payable to SMDC amounting to P2.57 million and nil as of December 31, 2020 and 2019, respectively, are recorded under the “Trade and other current payables” account in the consolidated statements of financial position.
- c) As at December 31, 2020 and 2019, the Group, through P21, has outstanding payables to its stockholders amounting to P368.70 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. On October 20, 2020, the Parent Company received 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 ongoing process of share swap transactions. These payables are non-interest bearing, payable on demand and will be settled in cash (see Note 16).
- d) Total remunerations of key management personnel which represent short-term benefits in 2020, 2019 and 2018 amounted to P322.92 million, P383.36 million and P411.7 million, respectively. Total key management compensation relating to post-employment benefits in 2020, 2019 and 2018 amounted to P22.66 million, P18.64 million and P13.24 million, respectively.

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## 21. Leases

### Leases as Lessee

The Group leases vehicles, parking lots and office spaces. The leases typically run for a period of one (1) to 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

	2020	2019
Balance at January 1	<b>P194,615,308</b>	P232,175,487
Additions	<b>25,903,780</b>	74,627,224
Depreciation for the year	<b>(107,216,666)</b>	(112,187,403)
Balance at December 31	<b>P113,302,422</b>	P194,615,308

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

	2020	2019
Balance at beginning of year	<b>P196,912,265</b>	P231,991,428
Additions	<b>25,903,780</b>	74,267,224
Lease payments inclusive of interest payments	<b>(117,079,519)</b>	(124,246,087)
Interest expense	<b>10,257,119</b>	14,899,700
Balance at end of year	<b>P115,993,645</b>	P196,912,265

Expenses relating to short-term leases amounted to P98.90 million and P96.91 million in 2020 and 2019, respectively, were recorded as part of “Rent” in the consolidated statements of income. Rental expense for operating leases under PAS 17 in 2018 amounted to P275.30 million.

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

December 31, 2020	Future Minimum Lease Payments	Interest	Present Value of Minimum Lease Payments
Less than one year	<b>P93,063,459</b>	<b>P4,677,160</b>	<b>P88,386,299</b>
Between one to five years	<b>28,841,734</b>	<b>1,234,388</b>	<b>27,607,346</b>
	<b>P121,905,193</b>	<b>P5,911,548</b>	<b>P115,993,645</b>

December 31, 2019	Future Minimum Lease Payments	Interest	Present Value of Minimum Lease Payments
Less than one year	P120,518,295	P10,200,309	P110,317,986
Between one to five years	92,530,276	5,935,997	86,594,279
	P213,048,571	P16,136,306	P196,912,265

## 22. Retirement Benefits

As at December 31, 2020 and 2019, 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 January 29, 2021 for the year ended December 31, 2020.

#### Salient Provisions of the Retirement Plan

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

#### Funding Arrangements

The 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	
	2020	2019	2020	2019	2020	2019
<b>Balance at beginning of year</b>	<b>P320,407,239</b>	P290,506,519	<b>P1,936,272,576</b>	P1,345,533,085	<b>P1,615,865,337</b>	P1,055,026,566
<b>Recognized in Profit or Loss and Consolidated Statement of Financial Position</b>						
Service costs	-	-	<b>199,127,658</b>	333,359,412	<b>199,127,658</b>	333,359,412
Interest expense	-	-	<b>100,686,174</b>	102,260,514	<b>100,686,174</b>	102,260,514
Interest income	<b>16,661,176</b>	22,078,495	-	-	<b>(16,661,176)</b>	(22,078,495)
	<b>16,661,176</b>	22,078,495	<b>299,813,832</b>	435,619,926	<b>283,152,656</b>	413,541,431
<b>Recognized in Other Comprehensive Income</b>						
Remeasurements:						
Actuarial (gains) losses arising from:						
Experience adjustments	-	-	<b>(78,897,846)</b>	(763,058)	<b>(78,897,846)</b>	(763,058)
Changes in financial assumptions	-	-	<b>264,392,714</b>	206,471,827	<b>264,392,714</b>	206,471,827
Return on plan asset excluding interest	<b>558,505</b>	7,822,225	-	-	<b>(558,505)</b>	(7,822,225)
	<b>558,505</b>	7,822,225	<b>185,494,868</b>	205,708,769	<b>184,936,363</b>	197,886,544
<b>Others</b>						
Contributions	<b>56,855,867</b>	50,589,204	-	-	<b>(56,855,867)</b>	(50,589,204)
Benefits paid	<b>(56,855,867)</b>	(50,589,204)	<b>(56,855,867)</b>	(50,589,204)	-	-
	-	-	<b>(56,855,867)</b>	(50,589,204)	<b>(56,855,867)</b>	(50,589,204)
<b>Balance at end of year</b>	<b>P337,626,920</b>	P320,407,239	<b>P2,364,725,409</b>	P1,936,272,576	<b>P2,027,098,489</b>	P1,615,865,337

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:

	2020	2019
Deposits in banks	0.00%	0.64%
Debt securities	74.70%	81.0% <sup>1</sup>
Equity securities	19.40%	17.14%
Investment in Unit Investment Trust Fund	5.09%	0.10%
Other assets	0.81%	1.11%
	<b>100.00%</b>	100.00%

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

	2020	2019
Current service cost	<b>P171,249,786</b>	P87,944,042
Interest cost	<b>86,590,110</b>	128,177,616
Interest income of plan asset	<b>(14,328,612)</b>	(18,987,505)
Past service cost	-	158,511,478
	<b>P243,511,284</b>	P355,645,631

In 2019, the increase in the present value of the defined benefit obligation for employee service in prior periods resulted from the current period introduction of early retirement option.

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

	2020	2019
Current service cost	<b>P27,877,872</b>	P20,866,124
Interest cost	<b>14,096,064</b>	14,316,472
Past service cost	-	25,774,194
Interest income of plan asset	<b>(2,332,565)</b>	(3,090,989)
	<b>P39,641,371</b>	P57,865,801

#### Actuarial Assumptions

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

	2020	2019
Discount rate	<b>3.90%</b>	5.20%
Future salary growth	<b>6.00%</b>	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 December 31, 2020 and 2019 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%.

	<b>December 31, 2020</b>	
	<b>1% Increase</b>	<b>1% Decrease</b>
Discount rate	<b>(P194,736,905)</b>	<b>P229,395,115</b>
Salary increase rate	<b>212,811,614</b>	<b>(184,508,106)</b>
	<b>December 31, 2019</b>	
	1% Increase	1% Decrease
Discount rate	(P145,017,981)	P174,832,482
Salary increase rate	264,718,897	(138,357,008)

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 longevity risk and interest rate risk.

The Group plans to make additional funding in 2021, subject to the approval of the Management.

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**23. Significant Transactions Related to COVID-19**

a. ERC Advisories Related to COVID-19

Initially, March 26, 2020, the Energy Regulatory Commission (ERC) released an Advisory in line with the Department of Energy's (DOE) Memorandum issued on March 18, 2020 calling the public and private power sector corporations to defer payments of obligations and dues for thirty (30) days after the conclusion of Enhanced Community Quarantine (ECQ) period on April 14, 2020, and the President's recent pronouncements, thereby directing payment of all fees due to the generation companies, Power Sector Assets and Liabilities Management Corporation (PSALM), National Power Corporation (NPC), National Transmission Corporation (TransCo), the Group and the Market Operator (MO) from March 15, 2020 to April 14, 2020 are extended for thirty (30) days from April 14, 2020, without interest and penalties. Thus, the Group's February 2020 power bill which is due on or before March 25, 2020 is affected by the March 26, 2020 ERC Advisory.

In view of the national government's extension of the ECQ until April 30, 2020, the ERC thereby issued on April 15, 2020 another Advisory directing electric power industry stakeholders such as:

- All Distribution Utilities (DUs) and Retail Electricity Suppliers (RES) are directed to provide a grace period to all captive and contestable customers through the deferment of their electricity bill falling due within the period of the ECQ or from March 16 to April 30, 2020, without interest, penalties, fees and other charges.
- The cumulative amount of electricity bill that was supposed to have fallen due within the ECQ period shall be amortized in four (4) equal monthly installments, payable in the four (4) succeeding billing months following the end of the ECQ. This shall be reflected as a separate item in the electricity bill due on those succeeding months, provided that the first billing due date following the ECQ shall be no earlier than May 15, 2020; and
- The Generators/Suppliers, PSALM, NPC, TransCo, the Group, Independent Power Producers (IPPs), Independent Power Producer Administrators (IPPAs) and the MO shall extend the same payment scheme as provided in the preceding paragraph, to the RES, DU and other customers. Availment of Prompt Payment Discount (PPD) will still be in accordance with the parties' approved supply contract.

The April 15, 2020 Advisory supersedes the March 26, 2020 Advisory of the ERC.

In this regard, NGCP's March 2020 power bill which is due on April 25, 2020 is also affected by the April 15, 2020 Advisory.

Another ERC advisory was issued on May 5, 2020 in line with the government's directive extending anew the ECQ in the National Capital Region (NCR) and some other areas until May 15, 2020. The ERC hereby amends and clarifies some items in the April 15, 2020 Advisory for the proper guidance of electric power industry stakeholders, to wit:

- DUs and RES operating in areas that continue to be under the ECQ are directed to further extend the grace period for the payment of their consumers' electricity bills falling due within the ECQ period of March 16 to May 15, 2020, without interest, penalties, fees and other charges. The directive on the amortization of payments in four (4) equal monthly installments, payable in the four (4) succeeding billing months following the end of the ECQ shall continue to be observed, but payments thereof by customers in areas covered by ECQ extension until May 15, 2020 shall commence no earlier than May 30, 2020;
- DUs and RES that are operating in areas under the General Community Quarantine (GCQ) shall retain the grace period on the due date of their consumers' electricity bills not earlier than May 15, 2020, without interest, penalties, fees and other charges. Similarly, the directive on the amortization of payments in four (4) equal monthly installments, payable in the four (4) succeeding billing months is hereby reiterated; and

- The Generators/Suppliers, PSALM, NPC, TransCo, the Group, IPPs and IPPAs and the MO shall extend the same payment scheme as provided in the preceding paragraph, to the RES, DU and other customers, depending on whether such customer is operating under an ECQ or GCQ. Availment of PPD will still be in accordance with the parties' approved supply contract.

In line with the recent ERC Advisory, NGCP's February and March 2020 power bills are covered by the four (4) months equal monthly installments commencing on May 25, 2020 for those under GCQ and no earlier than May 30, 2020 or June 1, 2020 for those under ECQ. Areas that are under ECQ until May 15, 2020 are NCR, Region 3 (except Aurora), Region IV-A (or CALABARZON), Pangasinan, Benguet, Baguio City, Iloilo, Cebu and Cebu City, Davao City, Davao de Oro, Albay, and Zamboanga City.

On September 11, 2020, Republic Act No. 11494 also known as "Bayanihan to Recover As One" was signed into law. Section 4(vv) of the said law directs all institutions providing electric services to implement a minimum of thirty day grace period for the payment of utilities falling due within the period of ECQ or Modified Enhanced Community Quarantine (MECQ) without incurring interests, penalties, and other charges, provided that after the grace period, unpaid utility bills may be settled on a staggered basis payable in not less than three (3) monthly installments without interest, penalties and other charges, subject to the rules and regulations to be issued by the regulators.

Thereafter, ERC issued an Advisory dated October 29, 2020 adopting in to Section 4(vv) of Republic Act No. 11494 with an additional directive that certain customers shall not be disconnected "on account of non-payment of bills until December 31, 2020." The Group was particularly directed to extend the same 30-day grace period, staggered payment, and no disconnection.

As of December 31, 2020, no changes in assumptions in terms of the estimating allowance for impairment losses considering that customers are given four (4) months to pay the deferred February, March and September 2020 power bills onwards.

b. 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 impact of the said event is material non-adjusting but does not cast significant doubt on the entity's ability to continue as a going concern.

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

The Group'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 Group:

- Delay in the completion of construction of major projects including:
  - Mindanao Visayas Interconnection Project: Average Delay of nine (9) months and new Estimated Time of Completion (ETC) by December 2021;
  - North Luzon 500kV Backbone Transmission Project: Average Delay of ten (10) months and new ETC by December 2021;
  - Cebu-Negros Panay (CNP) Interconnection Project: Average Delay of eight (8) months and new ETC by December 2022;
  - Integrated Action Plan (IAP) Projects: Average Delay of five (5) months and new ETC for phase one in June 2021 and phase two in June 2022.
- Anticipated under-utilization of Capital Expenditures (CAPEX) of approximately P10 billion due to the suspension and delays in major projects.
- 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 25 August 2020 attended by the Group'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
- 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 Group to keep its financial position stable during the crisis, even enabling it to donate P1 billion to the Philippine Government to aid its continuing efforts to help people and communities.

The Group 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. Donation for COVID-19 Preventive Drive

On April 17, 2020, the BOD of Directors of NGCP approved the donation to the Government of the Republic of the Philippines (Philippine Government) the amount of P1 billion to assist in the efforts of the Philippine Government in addressing the COVID-19. Of the said P1 billion donation, P500 million shall be in the form of goods and medical equipment. The remaining balance of P500 million from the said P1 billion donation shall be for the procurement of other COVID-19 response measure as may be determined by the Office of the President of the Republic of the Philippines.

The Group distributed goods, medical equipment and other response measures to local government units and Non-stock, non-profit educational and/or charitable, religious, cultural or social welfare corporation, institution, foundation, non-government organization, trust or philanthropic organization and/or research institution or organization amounting to P1 billion as of December 31, 2020 to assist the Philippine Government in addressing the COVID-19. The donation was recognized in the consolidated statements of income exclusive of value-added tax.

## 24. Financial Instruments

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

	<i>Note</i>	2020	2019
Current assets:			
Cash and cash equivalents	11	<b>P14,072,666,089</b>	P16,008,057,305
Power receivables	12	<b>3,980,405,660</b>	3,894,300,030
Due from customers	12	<b>2,937,787,061</b>	2,132,563,048
Restructured power receivables	12	<b>22,660,698</b>	22,148,572
Interest receivable	12	<b>10,051,675</b>	43,087,326
Due from officers and employees and other receivables	12	<b>172,372,675</b>	148,121,869
<b>Total current financial assets</b>		<b>21,195,943,858</b>	22,248,278,150
Noncurrent assets:			
Restructured power receivables		<b>1,428,490,332</b>	1,446,903,725
Power receivables		<b>117,962,549</b>	148,015,472
Due from customers		<b>433,619,636</b>	387,306,954
<b>Total noncurrent financial assets</b>	12	<b>1,980,072,517</b>	1,982,226,151
<b>Total financial assets</b>		<b>P23,176,016,375</b>	P24,230,504,301

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

	2020	2019
Balance at beginning of year	<b>P1,812,788,659</b>	P1,748,118,659
Provision for impairment losses on receivables during the year	<b>64,670,000</b>	64,670,000
<b>Balance at end of year</b>	<b>P1,877,458,659</b>	P1,812,788,659

Trade and other current payables, concession fee payable, loans payable, customers' and other deposits and other current liabilities in the consolidated statements of financial position as at December 31, 2020 and 2019 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:

	Total	Neither Past Due nor Impaired	Past Due but not Impaired			Past Due and Impaired	Total
			1 to 30 Days	31 to 60 Days	More than 60 Days		
<b>December 31, 2020</b>							
<b>Cash and Cash Equivalents</b>							
Cash in banks	P6,809,069,889	P6,809,069,889	P -	P -	P -	P -	P6,809,069,889
Short-term placements	7,263,596,200	7,263,596,200	-	-	-	-	7,263,596,200
<b>Receivables</b>							
Power receivables	3,981,043,368	3,908,242,597	72,800,771	-	-	117,324,841	4,098,368,209
Due from customers	2,994,745,900	2,200,384,932	92,391,456	138,798,140	563,171,372	376,660,797	3,371,406,697
Due from officers and employees and other receivables	171,734,967	171,734,967	-	-	-	637,708	172,372,675
Restructured power receivables	68,315,717	22,381,090	279,608	-	45,655,019	1,382,835,313	1,451,151,030
Interest receivable	10,051,675	9,733,915	-	-	317,760	-	10,051,675
	<b>P21,298,557,716</b>	<b>P20,385,143,590</b>	<b>P165,471,835</b>	<b>P138,798,140</b>	<b>P609,144,151</b>	<b>P1,877,458,659</b>	<b>P23,176,016,375</b>
<hr/>							
	Total	Neither Past Due nor Impaired	Past Due but not Impaired			Past Due and Impaired	Total
			1 to 30 Days	31 to 60 Days	More than 60 Days		
December 31, 2019							
<b>Cash and Cash Equivalents</b>							
Cash in banks	P2,366,451,063	P2,366,451,063	P -	P -	P -	P -	P2,366,451,063
Short-term placements	13,641,606,242	13,641,606,242	-	-	-	-	13,641,606,242
<b>Receivables</b>							
Power receivables	3,894,300,030	3,868,283,402	13,624,238	4,453,188	7,939,202	148,015,472	4,042,315,502
Due from customers	2,237,932,128	1,744,649,377	98,208,570	43,852,166	351,222,015	281,937,874	2,519,870,002
Due from officers and employees and other receivables	148,121,869	148,121,869	-	-	-	-	148,121,869
Restructured power receivables	86,216,984	21,868,963	279,609	-	64,068,412	1,382,835,313	1,469,052,297
Interest receivable	43,087,326	42,775,968	-	-	311,358	-	43,087,326
	<b>P22,417,715,642</b>	<b>P21,833,756,884</b>	<b>P112,112,417</b>	<b>P48,305,354</b>	<b>P423,540,987</b>	<b>P1,812,788,659</b>	<b>P24,230,504,301</b>

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, 2020 and 2019.

d) Past Due and Impaired Accounts

Receivables with an aggregate nominal value of P1.88 billion and P1.81 billion as at December 31, 2020 and 2019, respectively, were assessed to be impaired and hence, provided with allowance. There is a high concentration of credit risk with respect to these customers. These refer to accounts from customers in default due to financial difficulties without clear indication of recoverability and disputed charges already decided by ERC in favor of the customers. These accounts are in default and assessed as delinquent.

*Cash and Cash Equivalents*

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

*Receivables and Contract Assets*

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

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

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

The Group assessed that no material ECL is required for current receivables as at December 31, 2020 and 2019. As at December 31, 2020, the Group recognized total impairment allowance amounting to P1.88 billion attributable to and covers substantially all noncurrent receivables. There is no material difference between the estimated ECL provision required for the year 2020 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 BOD on a regular basis.

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

The contractual maturities of financial liabilities including estimated payments as at December 31, 2020, 2019 and 2018 are as follows:

	Note	As at December 31, 2020			
		Carrying Amount	Contractual Cash Flow	Less than 1 Year	More than 1 Year
Non-derivative financial liabilities:					
Trade and other current payables*	15	P44,586,767,068	P44,586,767,068	P44,586,767,068	P -
Concession fee payable	5	54,319,128,352	77,181,999,704	2,885,975,289	74,296,024,415
Loans payable (current and noncurrent)	14	135,685,322,020	157,753,585,163	20,242,713,489	137,510,871,674
Customers' and other deposits		400,865,396	400,865,396	-	400,865,396
Other current liabilities	16	9,830,910,394	9,830,910,394	9,830,910,394	-
Other noncurrent liabilities	16	1,767,715,209	1,767,715,209	-	1,767,715,209
		<b>P246,590,708,439</b>	<b>P291,521,842,934</b>	<b>P77,546,366,240</b>	<b>P213,975,476,694</b>

\*excluding payables to government.

	Note	As at December 31, 2019			
		Carrying Amount	Contractual Cash Flow	Less than 1 Year	More than 1 Year
Non-derivative financial liabilities:					
Trade and other current payables*	15	P29,834,860,297	P29,834,860,297	P29,834,860,297	P -
Concession fee payable	5	54,319,128,352	77,181,999,704	2,885,975,289	74,296,024,415
Loans payable (current and noncurrent)	14	128,168,766,348	151,570,515,948	18,320,036,579	133,250,479,369
Customers' and other deposits		345,632,345	345,632,345	-	345,632,345
Other current liabilities	16	8,205,280,822	8,205,280,822	8,205,280,822	-
Other noncurrent liabilities	16	1,842,270,291	1,842,270,291	-	1,842,270,291
		<b>P222,715,938,455</b>	<b>P268,980,559,407</b>	<b>P59,246,152,987</b>	<b>P209,734,406,420</b>

\*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, 2020, 2019 and 2018 pertains to its cash in banks, prepaid expenses and other current assets, trade and other liabilities denominated in US dollar, Euro, SGD, 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:

	December 31, 2020					Peso
	U.S. Dollar	Euro	SGD	NZD	JPY	Equivalent
<b>Assets</b>						
Cash and cash equivalents	58,312,300	-	-	-	-	2,802,605,763
Advance payment to suppliers and contractors	157,073,463	980,355	-	-	-	7,606,715,543
	215,385,763	980,355	-	-	-	10,409,321,306
<b>Liabilities</b>						
Accounts payable and accrued expenses*	(588,430,207)	(12,613,062)	-	(3,261)	(5,044,205,587)	(31,360,905,876)
<b>Net Foreign Currency-denominated Asset (Liabilities)</b>	<b>(373,044,444)</b>	<b>(11,632,707)</b>	<b>-</b>	<b>(3,261)</b>	<b>(5,044,205,587)</b>	<b>(20,951,584,570)</b>
	December 31, 2019					Peso
	U.S. Dollar	Euro	SGD	NZD	JPY	Equivalent
<b>Assets</b>						
Cash and cash equivalents	57,374,668	-	-	-	-	2,917,100,245
Advance payment to suppliers and contractors	110,824,013	19,181,984	-	-	395,902,680	6,900,679,847
	168,198,681	19,181,984	-	-	395,902,680	9,817,780,092
<b>Liabilities</b>						
Accounts payable and accrued expenses	(55,309,359)	(9,638,927)	(6,418)	(3,261)	(3,354,000)	(3,357,675,847)
<b>Net Foreign Currency-denominated Asset (Liabilities)</b>	<b>112,889,322</b>	<b>9,543,057</b>	<b>(6,418)</b>	<b>(3,261)</b>	<b>392,548,680</b>	<b>6,460,104,245</b>

With the translation of these foreign currency denominated assets and liabilities, the Group reported net foreign exchange gain (loss) of P311.91 million, (P194.62) million and (P423.55) million in 2020, 2019 and 2018, respectively.

The following are the closing exchange rates applied as at December 31, 2020, 2019 and 2018:

	USD	Euro	SGD	NZD	JPY
<b>2020</b>	<b>48.062</b>	<b>58.602</b>	<b>36.199</b>	<b>34.105</b>	<b>0.464</b>
2019	50.843	56.405	37.528	33.724	0.465
2018	53.062	60.26	38.67	35.320	0.4766

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

December 31, 2020			
	Strengthening/ Weakening of the Philippine Peso	Effect on Profit	Effect on Equity
U. S. Dollar	+10%	(P135,786,680)	P135,786,680
	-10%	135,786,680	(135,786,680)
JPY	+10%	(18,186,883)	18,186,883
	-10%	18,186,883	(18,186,883)
NZD	+10%	11,122	(11,122)
	-10%	(11,122)	11,122
Euro	+10%	122,136,149	(122,136,149)
	-10%	(122,136,149)	122,136,149
SGD	+10%	-	-
	-10%	-	-

December 31, 2019			
	Strengthening/ Weakening of the Philippine Peso	Effect on Profit	Effect on Equity
U. S. Dollar	+10	(P573,963,180)	P573,963,180
	-10	573,963,180	(573,963,180)
JPY	+10	(18,253,514)	18,253,514
	-10	18,253,514	(18,253,514)
NZD	+10	10,997	(10,997)
	-10	(10,997)	10,997
Euro	+10	(53,827,613)	53,827,613
	-10	53,827,613	(53,827,613)
SGD	+10	24,085	(24,085)
	-10	(24,085)	24,085

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

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

#### Capital Management

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

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

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

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

The Group has to meet Debt to Equity Ratio and Debt Service Coverage Ratio required by the concession agreement. For the years ended December 31, 2020, 2019 and 2018, the Group is in compliance with these requirements.

#### Fair Values

The Group analyzes financial instruments carried at fair value by valuation method as at December 31, 2020, 2019 and 2018. The different levels have been defined as follows:

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly.
- Level 3: inputs for the asset or liability that are not based on observable market data.

As at December 31, 2020 and 2019, the Group's derivative financial asset and liability were measured based on Level 2 classification.

As at December 31, 2020 and 2019, 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.

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## 25. Contingencies

The Group, in the ordinary course of business, is a party to certain cases or claims under protest pending with administrative bodies or the courts, the outcome of which are not presently determinable.

### a. Civil Cases

NGCP is a defendant in an Arbitration case filed by Kalpataru Power Transmission Limited (KPTL) before the Construction Industry Arbitration Commission (CIAC) where the Arbitral Tribunal awarded damages in favor of KPTL, as follows:

PROJECT	DAMAGES		
	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:

PROJECT	RETENTION MONEY	
	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.

There are several other cases for ejectment, damages, and recovery of possession filed against the Group and pending with the different trial courts nationwide. The total estimated amount of claim for these civil cases is P75.63 million.

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.

In NGCP vs. the OIC, Provincial Assessor of South Cotabato and the Municipal Assessor of Tupi, South Cotabato, a case involving properties with assessed value of P78.89 million, was dismissed on appeal by the CTA for failure to pay the tax under protest. This was brought to the Supreme Court by way of Petition for Review, docketed as G.R. No. 241105. A Reply to the Comment of Respondents to NGCP's Petition for Review dated January 3, 2019 was filed by NGCP and case is still pending.

Likewise, in the case of NGCP vs. Fatima Tenorio, et al, the CTA dismissed the petition filed by NGCP for failure to pay the tax under protest. However, since a similar case involving the same properties is also pending before the LBAA of Ilocos Sur, NGCP subsequently paid the real property tax under protest in the amount of P10.17 million. NGCP then filed another petition before the LBAA on November 5, 2018 contesting the collection and payment of the tax. The cases are still pending before the LBAA.

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 real property tax (RPT) in the amount of P192 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.

With respect to business taxes, franchise tax and other fees and charges, NGCP has a total of five (5) cases pending before various Regional Trial Courts (RTC) and one (1) pending before the CTA, in the estimated total amount of P266.8 million involved, to wit:

- a. Opol, Misamis Oriental (RTC)- P765,273.68
- b. Bacolod City (RTC)- P801,684.20
- c. Quezon City - P109,685,112.76 (NGCP paid under protest P19,102,993.54)
- d. Quezon City (RTC) - 92,972,742.00 (NGCP paid under protest P18,144,185.00)
- e. Isabela (RTC) - P60,610,980.24
- f. Tacloban (CTA) - P2,022,863.81

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 P7,134,765.66, the RTC already rendered a decision invalidating the franchise tax assessment issued by the Provincial Treasurer of Cotabato against NGCP.

As to the other Real Property Tax (RPT) cases, on October 12, 2020, NGCP received a copy of the CTA Decision, dated September 23, 2020, in CTA EB No. 2110 (City Assessor's Office of Valenzuela City vs. NGCP) reversing and setting aside the Decision dated August 22, 2012 of the LBAA and the October 8, 2018 Decision and May 31, 2019 Resolution of the CBAA. The CTA declared the Notice of Assessment dated October 9, 2012, as final, executory and unappealable. On October 23, 2020, NGCP filed its Motion for Reconsideration. Thereafter, NGCP received on October 23, 2020, the Statement of Account issued by the City Treasurer on the 37 machineries/transmission towers subject of the case in the total amount of P421,754,196.96. On October 30, 2020, NGCP requested the City Treasurer and City Assessor the following: (a) refer to TransCo the notice of delinquency for real property tax covering years 2002 to 2008; (b) classify the 37 machineries/transmission towers, as exempt from payment of real property tax from year 2009 onwards; and (c) issue revised tax declarations on 37 machineries/transmission towers and indicate thereon that NGCP is the beneficial user of the same and to re-classify said properties from taxable to exempt.

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 at December 31, 2020, NGCP obtained three thousand three hundred fifty-two (3,352) tax exemptions covering lands, buildings and machineries located in various Cities, Municipalities, Provinces involving real property assessed value in the total amount of P9,532,388,703.75.

As of December 31, 2020, NGCP has a total of ninety-three (93) RPT and franchise and business tax cases pending before the LBAA, CBAA, RTC, the Court of Tax Appeals (CTA) and the Supreme Court, and thirty-nine (39) RPT notices of assessment and tax billings with no tax cases filed, or a total of one hundred thirty-two (132).

Out of the ninety-three (93) petitions still pending before the various LBAAAs, CBAA, RTCs, CTA and the Supreme Court, fifty-three (53) pertain to petition contesting the Notices of Assessment issued by the Provincial or City Assessors or Treasurers with total assessed value of P14.3 billion for RPT and P266.8 million assessment for six (6) franchise/ business tax cases; while thirty-four (34), cases involve Payment Under Protest contesting the Statements of Account or Billings issued by the Provincial or City Treasurers in the total amount of P82.5 million, both for RPT and franchise/business tax cases.

c. Right of Way (ROW) Expropriation Cases

Pursuant to Republic Act (R.A.) No. 9511, the Group is authorized to exercise the right of eminent 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 regards to the expropriation case filed by NGCP against SSS for the acquisition of the site for the Pasay 230kV Substation Project, on 12 March 2020, NGCP filed an Omnibus Motion to Withdraw Complaint and Provisional Deposit amounting to Php1,460,928,000.00 with RTC-Pasay City. The same was set for hearing on 20 March 2020, however, due to the Covid 19 pandemic, the court hearings were suspended.

On 2 June 2020, in a telephone follow up with RTC-Pasay City, NGCP was informed that the court does not conduct hearings yet. NGCP was 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 30 June 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 27 July 2020. Per inquiry with RTC-Pasay City, the records of the case are yet to be transmitted to the RTC.

As of 31 December 2020, the total number of expropriation cases filed/pending with the Courts, including Projects Under Construction (PUC) cases turned-over to the Group by the National Transmission Corporation (TransCo), is 1,351 with the total estimated amount involved of P4.80 Billion (based on provisional deposits).

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 RTC-Pasay City on July 13, 2021. The Omnibus Motion to Withdraw Complaint and Provisional Deposit was granted by RTC-Pasay City after the hearing on July 21, 2021. NGCP will file a Partial Motion for Reconsideration regarding the interest on the provisional deposit (see Note 29).

d. Reclassification Cases

There are seven (7) reclassification cases pending before the Energy Regulatory Commission (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 Regulatory Period, 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 lieu of its 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 an appeal by the ERC with the Supreme Court.

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 million annually and Metering Authority Fees in the amount of P15 million every three years upon the renewal of NGCP's authority as the metering service provider. The Supervision and Regulation Fee is required to be paid on or before September 30<sup>th</sup> of each year with a penalty of fifty per centum in case of delinquency; Provided, further, that if the fees or any balance thereof are not paid within sixty days from the said date, the penalty shall be increased one per centum for each month of delinquency thereafter. On the other hand, the metering fee is being assessed based on the authority granted by ERC 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 now pending before the Supreme Court for resolution.

g. Labor Cases

There are 18 labor cases pending with the Court of Appeals and National Labor Relations Commission filed by former NGCP employees against NGCP in different areas/regions for illegal dismissal, with prayer for reinstatement, and payment of backwages and damages; and labor cases by employees of service providers in a service contract with NGCP wherein NGCP was impleaded as co-defendant. The cases are in the stage of submission of the parties' Position Papers and Memoranda or submitted for resolution. 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 ten (10) NGCP CAPEX Applications pending with the ERC for approval. Due to urgency of the projects, NGCP filed the CAPEX Applications for approval considering that ERC has not yet issued NGCP's Final Determination for the 4<sup>th</sup> Regulatory Period.

With regard to the disputes among NGCP, Power Sector Assets and Liabilities Management Corporation ("PSALM") and TransCo, the dispute resolution process has 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.

The Group 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, prescribed by Section 8 of RA No. 9511, to make a public offering of at least twenty percent (20%) of the Group's outstanding capital stock.

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 3 March 2020 Decision which remains pending. 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.

The Group has other possible claims from or obligations to other parties from past events and whose existence may only be confirmed by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Group.

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## 26. 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 Rules for Setting Transmission Wheeling Rates for 2003 to around 2027 (RTWR). 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 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 Group.

As discussed in Note 4 to the consolidated financial statements, the Group has signed a Concession Agreement with PSALM and TRANSCO, which covers the management and development of the transmission grid over the term of the franchise. Under the Concession Agreement, the Group is responsible for the operation, management and development of the grid, while TRANSCO continues to hold title over the transmission assets. Notwithstanding this, TRANSCO continues to be responsible for the settlement of Right of Way (ROW) claims in respect of projects that were ongoing at the time R.A. 9511 became effective, while the Group is responsible for ROW claims for projects that were initiated subsequent to the effectivity of the Act.

Hence, while the Group will incur the bulk of the costs of providing the Regulated Transmission Services over the 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 Group can bill its transmission customers for each year in the regulatory period.

With the issuance of the Order dated January 21, 2016, NGCP billed an iMAR<sub>2016</sub> of P41,653.82 million consistent with Module F of the 2006 Revised Open Access Transmission Service (OATS) Rules. As for the iMAR<sub>2016</sub> differential of P2,135.23 million, following the ERC Order dated December 19, 2016, this was collected by NGCP in 2017. The approved iMAR amounting to P43,789 million has been applied in CYs 2017, 2018 and 2019.

In its Order dated 13 February 2020, the ERC granted NGCP a provisional authority to implement an iMAR<sub>2020</sub> in the amount of P47,051.64 million, an increase of P3,262.59 million from the iMAR<sub>2016</sub> 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 28 July 2020 directing the suspension of the billing of the iMAR<sub>2020</sub>. As a result, there was an unbilled iMAR<sub>2020</sub> differential in the amount of P2,962.59 million.

#### *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 through 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 Fourth Regulatory Period, the Group continues to undertake the implementation of CAPEX which it deems prudent and necessary and incur OPEX that is essential in its day to day operations to continuously fulfill its mandated function as the Transmission Provider.

#### *Weighted Average Cost of Capital (WACC)*

The rate of return that the Regulated Entity can earn in its investment in transmission system assets is equal to the WACC as set by the ERC during each Reset based on a market analysis of the rate of return a business in the Philippines with a similar risk profile to the Regulated Entity can be expected to earn.

In the absence of a Final Determination for the Fourth Regulatory Period, which should provide, among others the WACC approved by the ERC for the years 2016 to 2020, as stated in Note 19, 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 P1.38 billion and P0.15 billion respectively as at December 31, 2020.

With the implementation of the TRAIN Law under Republic Act (R.A.) No. 10963 which took effect on January 1, 2018, Section 86 thereof, under Clause (bbb) repealed Section 9, with respect to VAT, of R.A. 9511 or the National Grid Corporation of the Philippines Franchise Act, which changes the classification of NGCP from Non-VAT to VAT entity, all transactions affected therein are made subject to VAT. Hence, effective January 1, 2018, all Input Taxes related to purchases of goods and services both for CAPEX and OPEX shall be considered as Input VAT, deductible from the Group's Output VAT Payable pursuant to the BIR rules and regulations.

#### *Performance Incentive Scheme (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 Fourth Regulatory Period, 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 Group.

#### *Rate Arrears - Transferred Assets*

An issue that has arisen since the Draft Determination is the recovery of rate arrears in respect of sub-transmission and connection assets that are to be transferred to the RAB at the beginning of the 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 Group may be damaged or destroyed. In such cases, increase in costs incurred by the Group in addition to the maximum amounts that it is otherwise permitted to charge to its transmission customers through the MAR is allowed to be recovered through FME Pass Through charges, subject to the approval of ERC in accordance with Article X of the RTWR.

For capital expenditures (i.e., replacement with new assets), partial recovery through additional FME charges will be billed on top of the regulated charges from the time of its approval until the end of the current Regulatory Period. The remaining unrecovered cost will then form part of the RAB assets to be carried forward to the subsequent regulatory period and recovered through regulatory depreciation with reasonable rate of return based on WACC. For operating expenditures (e.g. repairs), recovery during the current regulatory period as additional OPEX, is allowable.

The assets destroyed by such FMEs are removed from the RAB in the succeeding regulatory reset, but recovery is allowable through application for "accelerated depreciation".

Management does not consider the occurrences of FMEs as impairment indications with respect to the future economic benefits.

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 Group 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 2016 to 2020, the following FME Claims were submitted to the Commission:

<b>Year</b>	<b>FME Claim</b>	<b>Date Filed</b>
2016	Typhoon Amang in Visayas and Sabotage Incidents in Mindanao (ERC Case No. 2016-003RC)	January 12, 2016
	Typhoon Ineng in Luzon (ERC Case No. 2016-163RC)	August 22, 2016
	Typhoon Lando in Luzon and Sabotage Incidents in Mindanao (ERC Case No. 2016-179RC)	October 07, 2016
	Typhoon Nona in Luzon and Sabotage Incidents in Mindanao (ERC Case No. 2016-196RC)	December 12, 2016
2017	Typhoons Karen and Lawin in Luzon (ERC Case No. 2017-090RC)	October 12, 2017
	Typhoon Nina in Luzon (ERC Case No. 2017-116RC)	December 22, 2017
2018	Earthquake in Visayas (ERC Case No. 2018-073RC)	July 05, 2018
	Lightning and Sabotage Incidents in Luzon and Bombing Incident in Mindanao (ERC Case No. 2018-100RC)	October 02, 2018
	Typhoon Urduja, Typhoon Vinta, Typhoon Basyang and Flash Flood in Mindanao (ERC Case No. 2018-117RC)	December 11, 2018
2019	Flood due to Enhanced Southwest Monsoon Rain caused by Tropical Depression Josie in Luzon (ERC Case No. 2019-055RC)	July 19, 2019
	Typhoon Ompong in Luzon (ERC Case No. 2019-071RC)	September 13, 2019
	Typhoon Rosita in Luzon (ERC Case No. 2019-085RC)	October 29, 2019
2020	Earthquake Incidents in Mindanao, Typhoon Tisoy in Luzon and Visayas, and Typhoon Ursula in Visayas (ERC Case No. 2020-039RC)	October 30, 2020

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

The Group's excluded services, as provided in the RTWR. Currently, this includes the provision of Transmission Connection Services, and the management of Residual Sub-transmission Assets. Income from these excluded services is recognized under Connection and Residual Sub-transmission Income under "Revenues" account presented in profit or loss.

The ERC, in its Decision dated July 6, 2011 (ERC Case Nos. 2008-066RC and 2009-153 RC), approved the CC/RSTC for the years 2008 and 2009 with modification. Further, it required the filing of its application for the approval of the 2011 and 2012 CC/RSTC within 30 days from receipt of the Decision and within the same period as the filing of the MAR 2012, respectively.

In compliance with the ERC's directive in the said Decision, the Group applied for the approval of CY 2011 and 2012 CC/RSTC in December 2011. Also, the Group commenced billing customers of the ERC-approved 2009 CC/RSTC starting December 2011 billing month.

The ERC, in the same issuance, likewise directed the Group to bill the approved re-computed charges for CY 2009 as its current charges to all customers effective December 2011 billing month. These re-computed charges considered the asset reclassification made in the 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 Group, in December 2011 filed a Motion for Reconsideration (MR) which challenged the interest imposition. To date the ERC is yet to be resolved the MR.

Moreover, this ERC Decision effectively repealed the Deferment Orders issued in year 2008 covering the following nine (9) power customers, namely: Ifugao Electric Cooperative, Inc. (IFELCO), Eastern Samar Electric Cooperative, Inc. (ESAMELCO), Northern Samar Electric Cooperative, Inc. (NORSAMELCO), Leyte IV Electric Cooperative, Inc. (LEYECO IV), Davao Oriental Electric Cooperative, Inc. (DORECO), Surigao del Sur II Electric Cooperative, Inc. (SURSECO II), Mountain Province Electric Cooperative, Inc. (MOPRECO), Negros I Electric Cooperative, Inc. (NORECO I), Busco Sugar Milling Co., Inc. (BUSCO).

Consistent with the foregoing, the accounts of the nine (9) power customers were adjusted to consider the implementation of the approved CYs 2008 and 2009 CC/RSTC and the reclassification of assets.

Subsequent to this, the Group 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 Group submitted the 2011, 2012 and 2013 Re-computed CC/RSTC on September 4, 2014.

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

#### Valuation of STAs

Article V Section 2 of the Guidelines states "Asset valuation shall be the agreed value as negotiated between TRANSCO and the Qualified Distribution Utility or Qualified Consortium in a manner consistent with Section 8 of the Act. This negotiated value shall be deemed to be the Current Sound Value of the Sub-transmission Assets at the time of the acquisition of the assets."

Article V Section 2 of ERC Resolution No. 1, Series of 2009 states that "if the contract was entered after June 13, 2006, the sub-transmission assets shall be valued in reference to the Sinclair Knight Merz (SKM) valuation or any subsequent valuation as approved by the Commission." This was further amended by ERC Resolution No. 18 Series of 2009.

#### Negative Pledge

Pursuant to Section 5.03 (Negative Pledge) of the Concession Agreement, TRANSCO shall not without the Concessionaire's prior written consent, sell, dispose of, or create any lien or encumbrance over Transmission Assets except that TRANSCO shall be entitled to dispose of Sub-Transmission Assets in accordance with Section 8 of the EPIRA and retain the proceeds thereof. The Concession Fee shall be reduced in accordance with paragraph 1 (c) of Schedule 6 (Adjustment to Concession Fee) to reflect any disposals of STAs after the Bid Date, subject to Section 6.04 regarding the Commencement Fee.

Sale of STAs

For 2016 to 2020, the following sub-transmissions assets were divested by TransCo to Qualified Distribution Utilities:

<b>Year</b>	<b>Acquiring Distribution Utility</b>	<b>Assets Acquired</b>
2016	Zamboanga City Electric Cooperative, Inc. (ZAMCELCO)	Putik Lateral 69 KV line Recodo Lateral 69 69 KV line Pitogo-Tulungatung 69 kv line Pitogo-San jose Gusu 69 kv line
2017	Ilocos Norte Electric Cooperative, Inc. (INEC)	Currimao - San Nicolas 69kV San Nicolas - Laoag 69kV Laoag - Sarrat 69kV Sarrat - Marcos 69kV Sarrat - Piddig 69kV
	Central Pangasinan Electric Cooperative, Inc. (CENPELCO)	Mangaldan Bari S/S Site Establishment Transformer, two winding, 5 MVA 69/13.8 kV Structures and Improvements
	Isabela I Electric Cooperative, Inc. (ISELCO I)	Cauayan substation (all eqpt. and facilities incl. 15 MVA transformer)
	Mactan Electric Company (MECO)	Mactan Loadend S/S-GIS 69kV TMX/STR #20 MEPZ loadend S/S 69kV Mactan Loadend S/S #3 69kV MECO S/S 31 MECO S/S #3 69kV GIS-MECO S/S #2 69kV GIS 69kV Mactan Loadend S/S-Mulle Osmena 69kV Mactan-PAF 13.8kV Mandaue-Mactan Power Cable 69kV
2019	La Union Electric Company, Inc. (LUECO)	Bauang-Poro 69kV line
2020	Manila Electric Company (MERALCO)	<b>Batch 2</b> Makban-Los Banos 69kV line Makban-Calamba 69kV line Portion Calamba-CSE 13.8kV line Los Banos-IRRI/ERDB/PPRDI 13.8kV Calamba S/S Eqpt., 10 MVA transformer Los Banos S/S Eqpt., 2x10MVA transformer Makban S/S termination Eqpt.

Forward

Year	Acquiring Distribution Utility	Assets Acquired
	Manila Electric Company (MERALCO)	<p><b>Batch 4</b>  Tayabas 115kV Switchyard incl. 100 MVA Transformer  Transformer (T1) - two winding 100MVA  1 - 115kV Power Circuit Breaker  6 - 115kV Current Transformer  4 - 115kV Voltage Transformer  Site Establishment - Type 3-115  1 - Switch Bay 115kV with 1 CB Feeder  1 - Switch Bay 115kV with 1 CB Feeder Protection  Ternate S/S Equipment, incl. 50MVA Transformer  Transformer (T3) - two winding 50MVA  3 - 115kV Power Circuit Breaker  2 - 34.5kV Power Circuit Breaker  3 - 34.5kV Potential Transformer  Ancillaries - 115kV  Site Establishment - Type 3-115  Site Establishment - Type 2-69  1 - Switchbay 115kV 1 &amp; 1/2 bay with 3 CB  1 - Switchbay 115kV 1 &amp; 1/2 bay with 3 CB Protection  2 - Switchbay 34.5kV with 1 CB Feeder  2 - Switchbay 34.5kV with 1 CB Feeder Protection</p>

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 Group provides the following services that utilize part of the RAB:

- Rental of facilities and equipment; and
- Co-location, antenna attachments, use of building lots and space, use of access roads, attachment of telephone cables, and tapping to AC/DC power sources.

The Group also earns revenue from provision of the following services that do not involve the use of RAB assets like Technical assistance, including assisting with the testing, commissioning, calibration and maintenance of client's facilities.

Section 1 of RA 9511 provides that NGCP may engage in any related business which maximizes utilization of assets provided that a portion of the net income derived from such undertaking utilizing assets which form part of the rate base shall be used to reduce transmission wheeling rates as determined by the ERC. Such portion of net income used to reduce the transmission wheeling rates shall not exceed 50% of the net income derived from such undertaking.

#### *Ancillary Service Charges*

The Group includes in its monthly billings to customers pass through charges for provision of Ancillary Services (AS) which are generation-related services.

Relative to this, the Group has undertaken the reconciliation of its billing and payment of AS and AS VAT for years 2009 to 2018.

The Group has also submitted its compliances with ERC on the Ancillary Services Procurement Agreements (ASPA) with National Power Corporation (NPC) and Therma Marine, Inc. (TMI) involving re-computation of AS costs and collection/refund of AS charges from/to customers pursuant to pertinent ERC Orders/Decisions.

ERC in its Order dated June 16, 2014 in ERC Case Nos. 2010-011 RC and 2010-014 RC entitled, "In the Matter of the Application for Approval of the Ancillary Services Procurement Agreement (ASPA) between the National Grid Corporation of the Philippines (NGCP) and Therma Marine, Inc. (TMI), with Prayer for Provisional Authority," directed the Group to refund its customers the amount of P12.7 million and the corresponding VAT, for a period of twelve (12) months or the amount of P1.06 million plus VAT, per month starting its next billing cycle from receipt of the Order.

Consistent with the aforesaid Order, the Group implemented the refund effective September 2014 billing month or August 26 to September 25, 2014 for a period of twelve (12) months or until August 2015 billing month (July 26 to August 25, 2015), equivalent to a monthly credit adjustment of P1.26 million refund of the AS Cost was funded by TMI deposited monthly to the Group's accounts. TMI shall also fund the AS-VAT refund after its conduct of reconciliation with the Group.

On March 15, 2016, ERC issued an Order approving the recovery of the Differential Charge for the Ancillary Service provided by NPC to NGCP representing the March 26, 2008 to October 25, 2009 billing period under ERC Case No. 2009-029 RC. Pursuant to this, the Group commenced the billing of Ancillary Service Differential Charge of P31.38/kW-month for the Luzon, Visayas, and Mindanao grids effective May 2016 billing month or April 26 to May 25, 2016 to customers who benefitted from the Ancillary Services provision from April 2008 to October 2009 billing months. As of October 2016 billing month, NGCP has fully billed and stopped the billing of AS Differential Charge in Luzon.

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## **27. 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*.

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## 28. Earnings Per Share

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

	2020	2019	2018
(a) Net income attributable to Equity holders of the Parent Company	<b>P9,394,804,867</b>	P8,042,102,764	P8,407,746,106
(b) Weighted average common shares outstanding	<b>4,149,866,000</b>	4,149,866,000	4,149,866,000
Basic/diluted earnings per share (a/b)	<b>P2.26</b>	P1.94	P2.03

As at December 31, 2020, 2019 and 2018, 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 2020, 2019 and 2018.

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## 29. Events After Reporting Period

- a. *New Construction Contracts.* In 2021, the Group entered into new construction contracts amounting to P5.40 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 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 NLOM
- Implementation Consultancy Services for Substation Projects, Schedule I - San Simon 230KV and Pinili 230KV Substation Projects, Schedule II - Marilao 500KV Substation Project
- Supply of Labor, Tools, Materials, Supplies and Equipment for the Installation of Deluge Water Spray System for the Power Transformer at Various Substation of SLOM
- Foundation Works for Package D: Mindanao - Visayas Interconnection Project - Schedule I (Visayas +20kV Electrode Lines)
- Supply and Delivery of Current Transformer, Combined Instrument Transformer and Voltage Transformer (Batch 1)
- Supply of Labor, Tools, Materials, Supplies and Equipment for the Installation of Deluge Water Spray System for the Power Transformer at Various Substation of VOM
- Cebu-Negros-Panay 230kV Backbone Project - Stage 3, Phase 3 (Quiot and Cebu Substations)
- Supply and Delivery of STACIR Conductor
- OPGW Retrofitting Project: Matanao - Kidapawan 138 kV Line 1
- Supply Service Agreement Ref. No. Tpd-2018-05-1932
- Supply of Labor, Tools, Materials, Supplies and Equipment for the Installation of Deluge Water Spray System For The Power Transformer At Various Substation of MOM
- Supply Service Agreement Ref. No. Tpd-2018-05-1932
- Design, supply, delivery, installation, configuration, testing and commissioning of High Availability (HA) Enterprise and Data Center Core Level Switches For The Primary (2xha Nodes) And The Secondary (1xha Node) Data Centers
- Hauling, Installation, Wiring, Testing and Commissioning of 100 MVA and 50MVA Transformer at Tuguegarao Substation
- Design, Supply, Delivery, Installation, Configuration, Testing, And Commissioning of Five (5) Nodes of Next generation Firewalls In High Availability (HA) Configurations With Central Management System
- San Manuel-Nagsaag 230kv Transmission Line Project (500/230kv Substation Portion)- Supply and Delivery Of Current Transformer
- Parcellary Survey Of Porac 230kV Substation Project (Schedule I), Hermosaporac 230kv T/L (Schedule II), and Porac-Capas 230kV T/L and Clark 230kV T/L Extension (Schedule III)
- Furnishing of Materials, Labor, Equipment and other Incidentals for Construction of Bored Pile Foundation For Tower Nos. 193 and 196 Along San Francisco-Bislig 138 KV Transmission Line
- Parcellary Survey, Schedule I - Taguig 500kV Substation (Transmission Line Component) and Schedule II - Pagbilao - Tayabas 500kV Transmission Line Project
- Supply, Delivery, Installation, Configuration, Testing and Commissioning of Real-Time Cyber Security Operational Visibility Solution For NGCP Visayas BCC In Cebu and Negros Network Security
- 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
- Service Contract for The Engineering Geological and Geotechnical Investigation Of The Proposed Santiago-Nagsaag 500 kV T/L
- Extension of Materials Management Services for Transmission Line Project For Tuy-Dasmariñas 500kv Transmission Line Project (TI Portion)

- Maramag Substation Rehabilitation Project Stage 1 - Schedule li (Maramag Substation) Expansion, Modification and Reconfiguration Of Existing Substation Automation System At Maramag Substation
- Service Contract for The Engineering Geological And Geotechnical Investigation Of The Proposed Northern Luzon 230 Kv Loop (Pr No. 10047331)
- Supply and Delivery Of Tools & Equipment
- Design, Manufacture, Delivery, Installation, Assembly, Testing and Commissioning Of Spare Power Transformer, Schedule V - 1x10mva, 69/13.8kv
- Mindanao IP Network Expansion- PE Layer

For 2021, the Capital Expenditures approved by the BOD on March 19, 2020 amounted to P50.51 billion. Construction costs incurred amounted to P18,489,691,842 as at June 30, 2021.

- b. *Loans Payable.* Proceeds from loans in 2021 amounted to P17,000,000,000 which includes proceeds from loans availed on July 14, 2021 amounting to P5,000,000,000 from BDO as part of P20,900,000,000 Term Loan agreement entered on July 7, 2021. Payments of loans payable in 2021 amounted to P6,479,564,775.
- c. *Dividends.* The BOD of NGCP declared cash dividends amounting to P3.00 billion on March 25, 2021, and June 16, 2021 out of its unrestricted retained earnings as of date of declaration. The dividend was fully paid to stockholders of record on March 25, 2021 and June 17, 2021, respectively in proportion to their respective shareholdings.

The BOD of OTHI declared cash dividends amounting to P900.00 million on May 10, 2021 out of its unrestricted retained earnings as of date of declaration. The dividends was fully paid to the stockholder of record on July 5, 2021, in proportion to their respective shareholdings.

The BOD of P21 declared cash dividends amounting to P900.00 million on May 10, 2021 its unrestricted retained earnings as of date of declaration. The dividends was fully paid to the stockholders of record on July 5, 2021, in proportion to their respective shareholdings.

- d. *Tax Cases.* With respect to business taxes, franchise tax and other fees and charges subsequent to December 31, 2020, NGCP has one (1) case pending before the Metropolitan Trial Court (MTC) and one (1) pending before the Municipal Trial Court in Cities (MTCC), in the estimated total amount of P68,488. NGCP also has one (1) case involving payment under protest contesting the statements of account or billings issued by the Provincial or City Treasurer in the total amount of P0.6 million.
- e. *ROW Expropriation Cases.*
  - Subsequent to December 31, 2020, the total number of expropriation cases filed/pending with the Courts, including PUC cases turned-over to the Company by the TransCo, increased by 321, with the total estimated amount involved of P398 million (based on provisional deposits).

- On March 18, 2021, NGCP's Motion to Enforce Court Order was granted by the Supreme Court. The court records were transmitted to RTC-Pasay City on July 13, 2021. The Omnibus Motion to Withdraw Complaint and Provisional Deposit was granted by RTC-Pasay City after the hearing on July 21, 2021. NGCP will file a Partial Motion for Reconsideration regarding the interest on the provisional deposit (see Note 25).

f. *Other Cases*

- Subsequent to December 31, 2020, there are two (2) additional CAPEX Applications by NGCP pending with the ERC for approval.
- 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 the Initial Public Offering requirements until successful listing within six (6) months from receipt of the Order.



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**REPORT OF INDEPENDENT AUDITORS  
TO ACCOMPANY SUPPLEMENTARY INFORMATION FOR FILING  
WITH THE SECURITIES AND EXCHANGE COMMISSION**

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

We have audited, in accordance with Philippine Standards on Auditing, the financial statements of Synergy Grid & Development Phils., Inc. and Subsidiaries (the “Group”) as at December 31, 2020 and 2019 and for each of the three years in the period ended December 31, 2020, on which we have rendered our report thereon dated August 11, 2021.

Our audit was made for the purpose of forming an opinion on the consolidated financial statements of the Group taken as a whole. The supplementary information included in the following accompanying additional components is the responsibility of the Group’s management. Such additional components include:

- Reconciliation of Retained Earnings Available for Dividend Declaration
- Supplementary Schedules of Annex 68-J
- Map of Conglomerate

Firm Regulatory Registration & Accreditation:  
PRC-BOA Registration No. 0003, valid until November 21, 2023  
SEC Accreditation No. 0003-SEC, Group A, valid for five (5) years covering the audit of 2020 to 2024  
financial statements (2019 financial statements are covered by SEC Accreditation No. 0004-FR-5)  
IC Accreditation No. 0003-IC, Group A, valid for five (5) years covering the audit of 2020 to 2024  
financial statements (2019 financial statements are covered by IC Circular Letter (CL) No. 2019-39, Transition clause)  
BSP Accreditation No. 0003-BSP, Group A, valid for five (5) years covering the audit of 2020 to 2024  
financial statements (2019 financial statements are covered by BSP Monetary Board Resolution No. 2161, Transition clause)



This supplementary information is presented for purposes of complying with the Revised Securities Regulation Code Rule 68, and is not a required part of the consolidated basic financial statements. Such supplementary information has been subjected to the auditing procedures applied in the audits of the basic consolidated financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic consolidated financial statements taken as a whole.

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

A handwritten signature in black ink, appearing to read 'Vernilo G. Yu', written over a horizontal line.

VERNILO G. YU

Partner

CPA License No. 108798

SEC Accreditation No. 1815-A, Group A, valid until August 20, 2023

Tax Identification No. 225-454-652

BIR Accreditation No. 08-001987-035-2021

Issued June 29, 2021; valid until June 28, 2024

PTR No. MKT 8533924

Issued January 4, 2021 at Makati City

August 11, 2021

Makati City, Metro Manila

**SYNERGY GRID & DEVELOPMENT PHILS., INC.**  
**SCHEDULE OF RECONCILIATION OF RETAINED EARNINGS (DEFICIT)**  
**AVAILABLE FOR DIVIDEND DECLARATION**  
**FOR THE YEAR ENDED DECEMBER 31, 2020**

<b>Unappropriated Retained Earnings (Deficit), as adjusted, January 1, 2020</b>	<b>(P41,727,325)</b>
<b>Net loss based on the face of AFS</b>	<b>(1,990,042)</b>
<b>Less: Non-actual/unrealized income net of tax</b>	
Equity in net income of associate/ joint venture	-
Unrealized foreign exchange gain - net (except those attributable to Cash and Cash Equivalents)	-
Fair value adjustments (M2M gains)	-
Fair value adjustment of Investment Property resulting to gain Adjustment due to deviation from PFRS/GAAP-gain	-
Other unrealized gains or adjustments to the retained earnings as a result of certain transactions accounted for under the PFRS	-
Deferred income tax benefit for the year	-
<b>Add: Non-actual losses</b>	
Depreciation on revaluation increment (after tax)	-
Adjustment due to deviation from PFRS/GAAP - loss	-
Loss on fair value adjustment of investment property (after tax)	-
<b>Net Loss Actual/Realized</b>	<b>(1,990,042)</b>
Add (Less):	
Dividend declaration during the year	-
Appropriation of retained earnings during the year	-
Reversal of appropriations	-
Effects of prior period adjustments	-
Treasury shares	-
Sub-total	-
<b>Unappropriated Retained Earnings (Deficit), as adjusted, December 31, 2020</b>	<b>(P43,717,367)</b>

**SYNERGY GRID & DEVELOPMENT PHILS., INC. and SUBSIDIARIES**  
**SCHEDULE A. FINANCIALS ASSETS**

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Name of Issuing entity and association of each issue (i)	Number of shares or principal amount of bonds and notes	Amount shown in the balance sheet (ii)	Valued based on market quotation at balance sheet date (iii)	Income received and accrued
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**NOT APPLICABLE**

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**SYNERGY GRID & DEVELOPMENT PHILS., INC. and SUBSIDIARIES****SCHEDULE B. AMOUNTS RECEIVABLE FROM DIRECTORS, OFFICERS, EMPLOYEES, RELATED PARTIES AND PRINCIPAL STOCKHOLDERS (OTHER THAN AFFILIATES).**

Name and Designation of debtor (i)	Balance at beginning of period	Additions	Amounts collected (ii)	Amounts written off (iii)	Current	Not Current	Balance at end of period
Due from Officers and Employees	P7,964,767.14	P20,453,241.33	P16,520,375.39	P -	P5,460,163.33	P6,437,469.75	P11,897,633.08
Advances to Officers and Employees	38,550,509.36	720,655,968.23	706,575,793.78	-	43,713,549.39	8,917,134.42	52,630,683.81
<b>TOTAL</b>	<b>P46,515,276.50</b>	<b>P741,109,209.56</b>	<b>P723,096,169.17</b>	<b>P -</b>	<b>P49,173,712.72</b>	<b>P15,354,604.17</b>	<b>P64,528,316.89</b>

**SYNERGY GRID & DEVELOPMENT PHILS., INC. and SUBSIDIARIES**

**SCHEDULE C. AMOUNTS RECEIVABLE FROM RELATED PARTIES WHICH ARE ELIMINATED DURING THE CONSOLIDATION OF SEPARATE FINANCIAL STATEMENTS**

Name and Designation of debtor	Balance at beginning of period	Additions	Amounts collected (i)	Amounts written off (ii)	Current	Not Current	Balance at end of period
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**NOT APPLICABLE**

**SYNERGY GRID & DEVELOPMENT PHILS., INC. and SUBSIDIARIES**  
**SCHEDULE D. INTANGIBLE ASSETS - OTHER ASSETS**

Description (i)	Beginning balance	Additions at cost (ii)	Charged to cost and expenses	Charged to other accounts	Other changes additions (deductions) (iii)	Ending balance
Intangible Assets	P234,827,667,173	P41,333,775,546	P8,406,714,719	P -	P -	P267,754,728,000

**SYNERGY GRID & DEVELOPMENT PHILS., INC. and SUBSIDIARIES**

**SCHEDULE E. LONG TERM DEBT**

Title of Issue and type of obligation (i)	Lender	Outstanding Balance	Amount shown under caption "Current portion of long-term debt" in related balance sheet (ii)	Amount shown under caption "Long-Term Debt" in related balance sheet (iii)	Interest Rates	Number of Periodic Installments
Term Loan	Security Bank Corporation, Land Bank of the Philippines, Philippine National Bank, Metrobank	P 14,750,000,000	P2,950,000,000	P11,800,000,000	7.1692% (Tranche A) and 6.2456% (Tranche B)	10 years; Semi-annual
Term Loan	Asia United Bank, Maybank Philippines Inc., Philippine National Bank, Security Bank Corporation	11,550,000,000	2,100,000,000	9,450,000,000	6.78%	10 years; Semi-annual
Term Loan	Land Bank of the Philippines, Philippine National Bank, Maybank, Union Bank of the Philippines	10,500,000,000	1,500,000,000	9,000,000,000	5.1835% (Tranche A), 4.798% (Tranche B and D), 5.2625% (Tranche C)	10 years; Semi-annual
Term Loan	Land Bank of the Philippines, Philippine National Bank, Security Bank Corporation, Union Bank of the Philippines, BDO Unibank, Inc.	13,600,000,000	1,700,000,000	11,900,000,000	4.798% (Tranche A and B), 5.8958% (Tranche C) and 5.0639% (Tranche D)	10 years; Semi-annual
Term Loan	Mizuho Banking Ltd	810,000,000	270,000,000	540,000,000	6.84%	5 years; Semi-annual
Term Loan	MUFG Bank Ltd	1,200,000,000	400,000,000	800,000,000	6.77%	5 years; Semi-annual
Term Loan	Security Bank Corporation	1,900,000,000	100,000,000	1,800,000,000	5.92%	10 years; Semi-annual
Term Loan	Sumitomo Mitsui Banking	1,400,000,000	400,000,000	1,000,000,000	7.01%	5 years; Semi-annual
Term Loan	Bank of Commerce	3,515,000,000	190,000,000	3,325,000,000	5.42%	10 years; Semi-annual
Term Loan	Bank of the Philippine Islands	4,625,000,000	250,000,000	4,375,000,000	6.62%	10 years; Semi-annual
Term Loan	Land Bank of the Philippines	4,500,000,000	250,000,000	4,250,000,000	6.21%	10 years; Semi-annual
Term Loan	China Banking Corporation	4,750,000,000	250,000,000	4,500,000,000	6.39%	10 years; Semi-annual
Term Loan	Philippine National Bank	4,375,000,000	375,000,000	4,000,000,000	5.92%	10 years; Semi-annual

Forward

Title of Issue and type of obligation (i)	Lender	Outstanding Balance	Amount shown under caption "Current portion of long-term debt" in related balance sheet (ii)	Amount shown under caption "Long-Term Debt" in related balance sheet (iii)	Interest Rates	Number of Periodic Installments
Term Loan	Philippine National Bank	4,750,000,000	250,000,000	4,500,000,000	5.53%	10 years; Semi-annual
Term Loan	BDO Unibank, Inc.	4,875,000,000	250,000,000	4,625,000,000	5.02%	10 years; Semi-annual
Term Loan	China Banking Corporation	6,475,000,000	350,000,000	6,125,000,000	6.48%	10 years; Semi-annual
Term Loan	BDO Unibank, Inc.	8,750,000,000	750,000,000	8,000,000,000	5.69%	10 years; Semi-annual
Term Loan	Land Bank of the Philippines	2,730,000,000	140,000,000	2,590,000,000	5.23%	10 years; Semi-annual
Term Loan	BDO Unibank, Inc.	9,750,000,000	500,000,000	9,250,000,000	5.32%	10 years; Semi-annual
Term Loan	Bank of Commerce	2,500,000,000	-	2,500,000,000	4.92%	5 years; Semi-annual
Term Loan	Land Bank of the Philippines	4,200,000,000	210,000,000	3,990,000,000	4.84%	10 years; Semi-annual
Term Loan	BDO Unibank, Inc.	4,000,000,000	60,000,000	3,940,000,000	4.19%	10 years; Semi-annual
Term Loan	BDO Unibank, Inc.	6,000,000,000	90,000,000	5,910,000,000	3.12%	10 years; Semi-annual
Term Loan	MUFG Bank Ltd	1,000,000,000	-	1,000,000,000	4.90%	5 years; Semi-annual
Term Loan	China Banking Corporation	3,000,000,000	30,000,000	2,970,000,000	4.25%	10 years; Semi-annual
Term Loan	Mizuho Banking Ltd	1,000,000,000	-	1,000,000,000	3.85%	5 years; Semi-annual
Totals		P136,505,000,000	P13,365,000,000	P123,140,000,000		

**SYNERGY GRID & DEVELOPMENT PHILS., INC. and SUBSIDIARIES**

**SCHEDULE F. INDEBTEDNESS TO RELATED PARTIES (LONG TERM LOANS FROM RELATED PARTIES)**

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Name of Related Parties (i)	Balance at beginning of period	Balance at end of period (ii)
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**NOT APPLICABLE**

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**SYNERGY GRID & DEVELOPMENT PHILS., INC. and SUBSIDIARIES**  
**SCHEDULE G. GUARANTEES OF SECURITIES OF OTHER ISSUERS**

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Name of issuing entity of securities guaranteed by the company for which this statement is filed	Title of issue of each class of securities guaranteed	Total amount guaranteed and outstanding (i)	Amount owned by person for which statement is filed	Nature of guarantee (ii)
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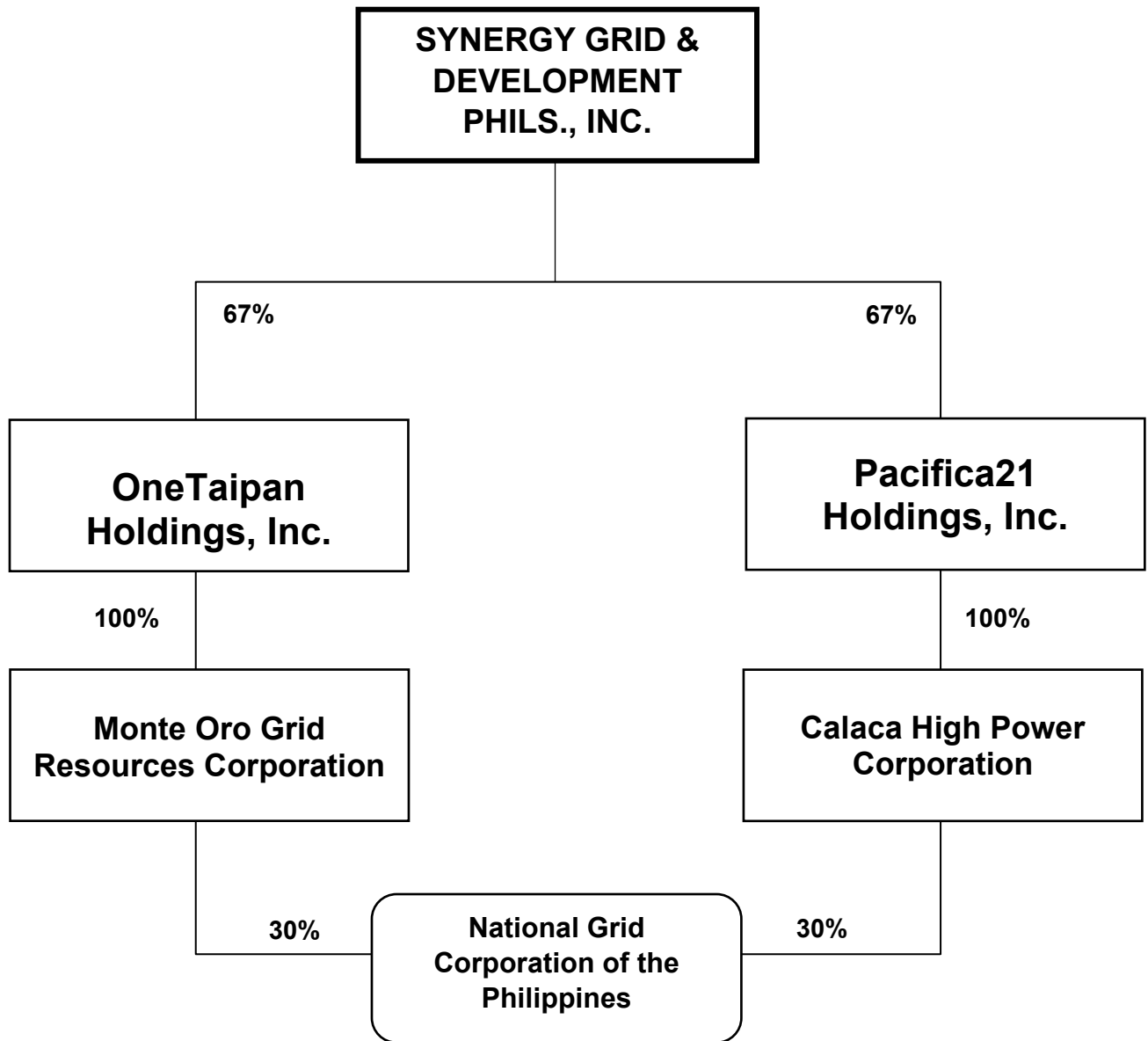
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**NOT APPLICABLE**

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**SYNERGY GRID & DEVELOPMENT PHILS., INC. and SUBSIDIARIES**  
**SCHEDULE H. CAPITAL STOCK**

Title of Issue (2)	Number of Shares authorized	Number of shares issued and outstanding at shown under related balance sheet caption	Number of shares reserved for options, warrants, conversion and other rights	Number of shares held by affiliates (3)	Directors, officers and employees	Others
<b>Common shares</b>	<b>5,050,000,000</b>	4,149,866,000	-	-	4,139,232,753	10,633,247





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## **REPORT ON INDEPENDENT AUDITOR'S COMPONENTS OF FINANCIAL SOUNDNESS INDICATORS**

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

We have audited in accordance with Philippine Standards on Auditing, the financial statements of Synergy Grid & Development Phils., Inc. (the "Group") as at December 31, 2020 and 2019 and for each of the three years in the period ended December 31, 2020, on which we have rendered our report thereon dated August 11, 2021.

Firm Regulatory Registration & Accreditation:  
PRC-BOA Registration No. 0003, valid until November 21, 2023  
SEC Accreditation No. 0003-SEC, Group A, valid for five (5) years covering the audit of 2020 to 2024  
financial statements (2019 financial statements are covered by SEC Accreditation No. 0004-FR-5)  
IC Accreditation No. 0003-IC, Group A, valid for five (5) years covering the audit of 2020 to 2024  
financial statements (2019 financial statements are covered by IC Circular Letter (CL) No. 2019-39, Transition clause)  
BSP Accreditation No. 0003-BSP, Group A, valid for five (5) years covering the audit of 2020 to 2024  
financial statements (2019 financial statements are covered by BSP Monetary Board Resolution No. 2161, Transition clause)



Our audits were made for the purpose of forming an opinion on the basic consolidated financial statements of the Group taken as a whole. The Supplementary Schedule on Financial Soundness Indicators, including their definitions, formulas, calculation, and their appropriateness or usefulness to the intended users, are the responsibility of the Group's management. These financial soundness indicators are not measures of operating performance defined by Philippine Financial Reporting Standards (PFRS) and may not be comparable to similarly titled measures presented by other companies. This schedule is presented for the purpose of complying with the Revised Securities Regulation Code Rule 68 issued by the Securities and Exchange Commission and is not a required part of the basic consolidated financial statements prepared in accordance with PFRS. The components of these financial soundness indicators have been traced to the Group's consolidated financial statements as at December 31, 2020 and 2019 and for each of the three years in the period ended December 31, 2020 and no material exceptions were noted.

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

VERNILO G. YU

Partner

CPA License No. 108798

SEC Accreditation No. 1815-A, Group A, valid until August 20, 2023

Tax Identification No. 225-454-652

BIR Accreditation No. 08-001987-035-2021

Issued June 29, 2021; valid until June 28, 2024

PTR No. MKT 8533924

Issued January 4, 2021 at Makati City

August 11, 2021

Makati City, Metro Manila

## SCHEDULE OF FINANCIAL SOUNDNESS INDICATORS

SYNERGY GRID & DEVELOPMENT PHILS., INC. & SUBSIDIARIES

As of December 31, 2020

<b>Ratios</b>	<b>Formula</b>	<b>2020 Current Period</b>	<b>2019 Prior Year</b>
Current ratio	$\frac{\text{Current assets}}{\text{Current liabilities}}$	<b>0.84</b>	<b>1.06</b>
Acid test ratio	$\frac{\text{Cash and cash equivalents+ marketable securities+accounts receivable}}{\text{Current liabilities}}$	<b>0.37</b>	<b>0.46</b>
Solvency ratio	$\frac{\text{Total assets}}{\text{Total liabilities}}$	<b>1.35</b>	<b>1.34</b>
Debt-to-equity ratio	$\frac{\text{Total liabilities}}{\text{Equity}}$	<b>2.84</b>	<b>2.92</b>
Asset-to-equity ratio	$\frac{\text{Total assets}}{\text{Equity}}$	<b>3.84</b>	<b>3.92</b>
Interest rate coverage ratio	$\frac{\text{Earnings before interest and tax}}{\text{Interest expense}}$	<b>4.57</b>	<b>3.76</b>
Return on equity	$\frac{\text{Net Income}}{\text{Equity}}$	<b>0.26</b>	<b>0.26</b>
Return on assets	$\frac{\text{Net Income}}{\text{Average total assets}}$	<b>0.07</b>	<b>0.08</b>
Net profit margin	$\frac{\text{Net Income}}{\text{Net sales}}$	<b>0.48</b>	<b>0.44</b>



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Internet www.home.kpmg/ph  
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## REPORT OF INDEPENDENT AUDITORS

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

### *Opinion*

We have audited the consolidated financial statements of Synergy Grid & Development Phils., Inc. and Subsidiaries (the “Group”), which comprise the consolidated statements of financial position as at December 31, 2018 and 2017, and the consolidated statements of comprehensive income, consolidated statements of changes in equity and consolidated statements of cash flows for the years then ended, and notes, comprising significant accounting policies and other explanatory information.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as at December 31, 2018 and 2017, and its consolidated financial performance and its consolidated cash flows for each of the years then ended, in accordance with Philippine Financial Reporting Standards (PFRS).

### *Basis for Opinion*

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

Firm Regulatory Registration & Accreditation:  
PRC-BOA Registration No. 0003, valid until November 21, 2023  
SEC Accreditation No. 0003-SEC, Group A, valid for five (5) years covering the audit of 2020 to 2024  
financial statements (2019 financial statements are covered by SEC Accreditation No. 0004-FR-5)  
IC Accreditation No. 0003-IC, Group A, valid for five (5) years covering the audit of 2020 to 2024  
financial statements (2019 financial statements are covered by IC Circular Letter (CL) No. 2019-39, Transition clause)  
BSP Accreditation No. 0003-BSP, Group A, valid for five (5) years covering the audit of 2020 to 2024  
financial statements (2019 financial statements are covered by BSP Monetary Board Resolution No. 2161, Transition clause)



### *Emphasis of Matter*

We draw attention to Notes 2 and 6 to the consolidated financial statements which discussed that in addition to the previous financial statements issued on March 15, 2019, for which we expressed an unmodified opinion on the same date, the Group issues these consolidated financial statements as at December 31, 2018 and 2017 to reflect the effects of the Share Swap Transaction which is considered to be a business combination of entities under common control and accounted for retrospectively using the pooling of interests method with the consolidated financial statements as at and for the years ended December 31, 2018 and 2017 being restated as if the entities had always been combined for the periods that the entities were under common control. Our opinion is not modified in respect of this matter. These consolidated financial statements were prepared by the Group to comply with the registration requirements of the Securities and Exchange Commission for the Group's planned follow-on offering of its shares.

### *Key Audit Matters*

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

#### *Accounting for Intangible Asset*

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

#### *The risk*

The Group has intangible assets amounting to P210.61 billion as at December 31, 2018 which mainly consists of assets related to the transmission projects pursuant to the Concession Agreement entered into by the Group with PSALM and TRANSCO. The accounting for intangible assets involves significant management judgement particularly in the determination of the completeness and appropriateness of the costs recognized related to approved capital expenditures, assessment of work completion and allocation of related costs that need to be capitalized in accordance with IFRIC 12, *Service Concession Arrangements*. Moreover, due to the materiality of intangible asset in the consolidated financial statements, it is deemed as one of our key audit matters

#### *Our response*

Our audit procedures included:

- We assessed the operating effectiveness of key controls in respect to the appropriateness of completeness of the costs recognized related to approved capital expenditures;
- We assessed whether the Group's capitalization of intangible asset is in accordance with IFRIC12 by obtaining and reviewing sample construction contracts;
- We performed cut-off testing to check whether transactions were recorded in the appropriate accounting period by checking the transactions subsequent to year end within the relevant period and verifying contracts, work status and other relevant documentation on a sample basis; and
- We have also evaluated the appropriateness and adequacy of the presentation and the relevant disclosures in the consolidated financial statements.



### *Valuation of Goodwill*

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

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

### *Our response*

Our procedures included:

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

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

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

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

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

### *Auditors' Responsibilities for the Audit of the Consolidated Financial Statements*

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



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

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

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

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



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

The engagement partner on the audit resulting in this independent auditors' report is Mr. Vernilo G. Yu.

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

A handwritten signature in black ink, appearing to be 'Vernilo G. Yu', written over a horizontal line.

VERNILO G. YU

Partner

CPA License No. 108798

SEC Accreditation No. 1815-A, Group A, valid until August 20, 2023

Tax Identification No. 225-454-652

BIR Accreditation No. 08-001987-035-2021

Issued June 29, 2021; valid until June 28, 2024

PTR No. MKT 8533924

Issued January 4, 2021 at Makati City

August 11, 2021

Makati City, Metro Manila

SYNERGY GRID & DEVELOPMENT PHILS., INC.  
(formerly UEM Development Phils., Inc.)

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

STATEMENT OF MANAGEMENT'S RESPONSIBILITY  
FOR FINANCIAL STATEMENTS


The management of **Synergy Grid & Development Phils, Inc and Subsidiaries** (the "Group"), is responsible for the preparation and fair presentation of the consolidated financial statements including the schedule attached therein, as at and for the years ended December 31, 2018 and 2017, in accordance with the prescribed financial reporting framework indicated therein, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

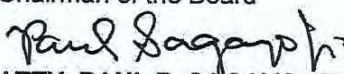
In preparing the consolidated financial statements, management is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the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

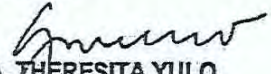
The Board of Directors is responsible for overseeing the Group's financial reporting process.

The Board of Directors reviews and approves the consolidated financial statements including the schedule attached therein and submits the same to the Stockholders.

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


  
**HENRY SY, JR.**  
Chairman of the Board

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

  
**MA. THERESITA YULO**  
Treasurer / Comptroller

Signed this 11<sup>th</sup> day of August 2021

Doc. No. 333  
Page No. 68  
Book No. 11  
Series of 2021.

  
**ALAN DAVID M. ORQUINAZA**  
Notary Public for the Cities of Pasig, San Juan  
And Municipality of Pateros  
Commission until 31 December 2021

2201 Discovery Center 25 ADB Ave., Ortigas Center Pasig City  
APPT. No. 174 (2020-2021) - Roll No. 73735  
PTR No. 6514969: 01-13-2021: Pasig City  
ISP No. 135449: 12-17-2020: Makati  
WOLE Compliance - No. VII-003584: 07-16-2021

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

**December 31**

	<i>Note</i>	2018 (As restated - Note 6)	2017 (As restated - Note 6)
<b>ASSETS</b>			
<b>Noncurrent Assets</b>			
Intangible asset - net	5, 8, 27	P210,687,541,385	P189,137,365,854
Goodwill	9	10,471,611,069	10,471,611,069
Property and equipment - net	10	3,729,184,732	3,005,550,620
Deferred input VAT	27	76,378,374	-
Receivables - net of current portion	12, 23	1,466,752	209,206,683
Other noncurrent assets		-	2,551,666
<b>Total Noncurrent Assets</b>		<b>224,966,182,312</b>	<b>202,826,285,892</b>
<b>Current Assets</b>			
Cash and cash equivalents	11, 23	13,626,293,484	18,620,977,088
Receivables - net	12, 23	10,277,634,799	8,802,528,181
Prepaid expenses and other current assets	13	26,672,901,277	19,930,026,088
Derivative asset	23	-	609,636,826
<b>Total Current Assets</b>		<b>50,576,829,560</b>	<b>47,963,168,183</b>
		<b>P275,543,011,872</b>	<b>P250,789,454,075</b>
<b>LIABILITIES AND EQUITY</b>			
<b>Noncurrent Liabilities</b>			
Loans payable - net of current portion	14, 23	P94,350,568,008	P79,383,012,893
Retirement benefits liability	22	1,055,026,566	1,026,248,047
Customers' and other deposits	23	319,758,218	302,070,756
Concession fee payable	5, 23	54,319,128,352	54,319,128,352
Other noncurrent liabilities	16, 23	2,471,008,706	2,516,874,839
<b>Total Noncurrent Liabilities</b>		<b>152,515,489,850</b>	<b>137,547,334,887</b>
<b>Current Liabilities</b>			
Trade and other current payables	15, 23, 24	32,338,018,658	22,378,074,231
Current portion of loans payable	14, 23	8,927,558,477	11,995,216,179
Other current liabilities	16, 20, 23	8,227,268,577	8,542,558,014
<b>Total Current Liabilities</b>		<b>49,492,845,712</b>	<b>42,915,848,424</b>
<b>Total Liabilities</b>		<b>202,008,335,562</b>	<b>180,463,183,311</b>
<b>Equity</b>			
Capital stock	17	4,149,866,000	4,149,866,000
Additional paid-in capital	17	77,907,600,000	77,907,600,000
Hedging reserve	17, 23	-	(50,525,675)
Remeasurements gains(losses) on defined benefit liability	22	1,924,300	(34,302,050)
Equity adjustments from common control transactions		(73,359,171,000)	(73,359,171,000)
Retained earnings	17	38,247,966,165	29,840,220,059
<b>Equity Attributable to Equity Holders of Parent Company</b>		<b>46,948,185,465</b>	<b>38,453,687,334</b>
<b>Noncontrolling interests</b>		<b>26,586,490,845</b>	<b>31,872,583,430</b>
<b>Total Equity</b>		<b>73,534,676,310</b>	<b>70,326,270,764</b>
		<b>P275,543,011,872</b>	<b>P250,789,454,075</b>

See Notes to the Consolidated Financial Statements.

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

		<b>Years Ended December 31</b>	
	<b>Note</b>	<b>2018</b> (As restated - Note 6)	<b>2017</b> (As restated - Note 6)
<b>REVENUES - Net</b>	<b>19, 27</b>	<b>P45,402,003,003</b>	P45,409,957,333
<b>EXPENSES</b>			
Amortization of intangible asset	8	7,903,044,793	7,507,024,453
Salaries, wages and employees' benefits	20, 22	4,227,226,405	4,086,845,653
Repairs and maintenance		981,812,715	827,051,628
Security and janitorial		634,206,132	837,048,288
Depreciation	10	503,209,167	545,892,601
Supervision and regulatory fees		468,433,750	468,433,750
Insurance		414,608,447	424,005,447
Transportation and travel		401,212,596	351,629,876
Communication, light and water		386,515,876	341,209,637
Public Relation and Corporate Social Responsibility		332,910,947	339,991,074
Rent	21	276,442,303	189,405,522
Supplies and tools		199,786,541	201,432,574
Fuel and oil		186,110,684	135,017,410
Outside services		168,388,175	138,175,204
Representation and entertainment		135,303,095	235,229,135
Meetings and conferences		130,629,768	101,803,789
Other taxes		100,635,380	887,674,702
Provision for impairment losses on receivables	12	64,670,000	64,670,000
Professional fees		48,107,426	56,798,656
Taxes and licenses		44,900,342	36,293,003
Advertising		22,360,371	56,872,093
Director's fee		15,000,000	15,000,000
Charitable contributions		9,119,962	8,967,177
Filing fees		896,388	941,969
Miscellaneous expenses		16,639,161	7,639,792
		<b>17,672,170,424</b>	17,865,053,433
<b>INCOME FROM OPERATIONS</b>		<b>27,729,832,579</b>	27,544,903,900
<b>OTHER INCOME (CHARGES)</b>			
Interest expense	5, 14, 23	(6,640,204,984)	(6,530,684,553)
Foreign exchange loss - net	23	(423,555,759)	(435,384,765)
Interest income	11	280,621,789	210,268,030
Bank and finance charges	14	(164,938,652)	(200,449,580)
Loss on disposal of property and equipment		(178,175)	(34,978)
Reversal of impairment of input VAT		-	245,993
Miscellaneous income (charges)		163,542,159	(28,997,012)
		<b>(6,784,713,622)</b>	(6,985,036,865)
<b>CONSTRUCTION REVENUE AND COSTS</b>			
Construction revenue		29,453,220,324	10,304,450,913
Construction costs		(29,453,220,324)	(10,304,450,913)
		-	-
<b>NET INCOME BEFORE TAX</b>		<b>20,945,118,957</b>	20,559,867,035
<b>INCOME TAX EXPENSE</b>		<b>157,979</b>	131,882
<b>NET INCOME</b>		<b>P20,944,960,978</b>	P20,559,735,153
<b>Attributable to:</b>			
Equity holders of the Parent Company		P8,407,746,106	P8,250,946,743
Noncontrolling interests		12,537,214,872	12,308,788,410
		<b>P20,944,960,978</b>	P20,559,735,153

See Notes to the Consolidated Financial Statements.

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

<b>Years Ended December 31</b>			
	<b>Note</b>	<b>2018</b> (As restated - Note 6)	<b>2017</b> (As restated - Note 6)
<b>NET INCOME</b>		<b>P20,944,960,978</b>	P20,559,735,153
<b>OTHER COMPREHENSIVE INCOME</b>			
<i>Item that will never be reclassified to profit or loss</i>			
Remeasurement losses on defined benefit liability	22	<b>90,115,299</b>	46,934,308
<i>Item that can be reclassified to profit or loss</i>			
Hedging reserve		<b>125,685,759</b>	371,753,084
<b>OTHER COMPREHENSIVE INCOME</b>		<b>215,801,058</b>	418,687,392
<b>TOTAL COMPREHENSIVE INCOME</b>		<b>P21,160,762,036</b>	P20,978,422,545
<b>Attributable to:</b>			
Equity holders of the Parent Company		<b>P8,494,498,131</b>	P8,419,259,075
Non-controlling interests		<b>12,666,263,905</b>	12,559,163,470
		<b>P21,160,762,036</b>	P20,978,422,545

See Notes to the Consolidated Financial Statements.

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

		Capital Stock	Additional	Equity	Remeasurements	Hedging	Retained	Total	Non-controlling	Total Equity
	Note	(Note 17)	Paid-in Capital	Adjustments from Common Control Transactions	on Defined Benefit Liability	Reserve	Earnings		Interests	
<b>As at January 1, 2018, As Previously Reported</b>		<b>P49,466,000</b>	<b>P -</b>	<b>P -</b>	<b>P -</b>	<b>P -</b>	<b>(P42,778,945)</b>	<b>P6,687,055</b>	<b>P -</b>	<b>P6,687,055</b>
Share swap transaction	6	4,100,400,000	77,907,600,000	-	-	-	-	82,008,000,000	-	82,008,000,000
Effect of common control business combination	6	-	-	(73,359,171,000)	(34,302,050)	(50,525,675)	29,882,999,004	(43,560,999,721)	31,872,583,430	(11,688,416,291)
<b>As at January 1, 2018, As Restated</b>		<b>4,149,866,000</b>	<b>77,907,600,000</b>	<b>(73,359,171,000)</b>	<b>(34,302,050)</b>	<b>(50,525,675)</b>	<b>29,840,220,059</b>	<b>38,453,687,334</b>	<b>31,872,583,430</b>	<b>70,326,270,764</b>
<b>Total Comprehensive Income</b>										
Net income for the period		-	-	-	-	-	8,407,746,106	8,407,746,106	12,537,214,872	20,944,960,978
Other comprehensive income:										
Remeasurement gain on defined benefit liability	22	-	-	-	36,226,350	-	-	36,226,350	53,888,949	90,115,299
Hedging reserve		-	-	-	-	50,525,675	-	50,525,675	75,160,084	125,685,759
<b>Total Comprehensive Income for the Period</b>		<b>-</b>	<b>-</b>	<b>-</b>	<b>36,226,350</b>	<b>50,525,675</b>	<b>8,407,746,106</b>	<b>8,494,498,131</b>	<b>12,666,263,905</b>	<b>21,160,762,036</b>
<b>Transactions with Owners of the Group</b>										
Dividends	17	-	-	-	-	-	-	-	(17,915,000,000)	(17,915,000,000)
Transaction costs		-	-	-	-	-	-	-	(37,356,490)	(37,356,490)
<b>Balance at December 31, 2018</b>		<b>P4,149,866,000</b>	<b>P77,907,600,000</b>	<b>(P73,359,171,000)</b>	<b>P1,924,300</b>	<b>P -</b>	<b>P38,247,966,165</b>	<b>P46,948,185,465</b>	<b>P26,586,490,845</b>	<b>P73,534,676,310</b>

See Notes to the Consolidated Financial Statements.

Years Ended December 31

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

	Note	Capital Stock (Note 17)	Additional Paid-in Capital	Equity				Retained Earnings	Total	Non-controlling		Total Equity
				Adjustments from Common Control Transactions	Remeasurements on Defined Benefit Liability	Hedging Reserve	Interest					
As at January 1, 2017, As Previously Reported		P49,466,000	P -	P -	P -	P -	(742,487,888)	P6,978,312		P -	P6,978,312	
Share swap transaction	6	4,100,400,000	77,907,600,000	(73,359,171,000)	(53,169,642)	(199,970,415)	21,631,761,004	82,008,000,000		P -	82,008,000,000	
Effect of common control business combination	6	-	-	(73,359,171,000)	(53,169,642)	(199,970,415)	21,589,273,316	(51,980,550,053)	38,204,419,980	P -	(13,776,130,093)	
		4,149,866,000	77,907,600,000	(73,359,171,000)	(53,169,642)	(199,970,415)	21,589,273,316	30,034,428,259	38,204,419,980	P -	68,238,848,219	
Total Comprehensive Income		-	-	-	-	-	8,250,946,743	8,250,946,743	12,308,788,410		20,559,735,153	
Net income for the year		-	-	-	-	-	-	-	-		-	
Other comprehensive income:												
Remeasurement gain on defined benefit liability	22	-	-	-	18,867,592	149,444,740	-	149,444,740	222,308,344		371,753,084	
Hedging reserve		-	-	-	18,867,592	-	-	18,867,592	28,066,716		46,934,308	
Total Comprehensive Income for the Period		-	-	-	18,867,592	149,444,740	8,250,946,743	8,419,259,075	12,559,163,470		20,978,422,545	
Transactions with Owners of the Group												
Stock dividend declaration		-	-	-	-	-	-	-	-	(8,000,000)	(8,000,000)	
Transaction costs		-	-	-	-	-	-	-	-	(18,883,000,000)	(18,883,000,000)	
Dividends	17	-	-	-	-	-	-	-	-	(18,883,000,000)	(18,883,000,000)	
Balance at December 31, 2017		P4,149,866,000	P77,907,600,000	(P73,359,171,000)	(P34,302,050)	(P50,525,675)	P29,840,220,059	P38,453,687,334	P31,872,583,430	P70,326,270,764		

See Notes to the Consolidated Financial Statements.

Years Ended December 31

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

	<b>Years Ended December 31</b>	
<b>Note</b>	<b>2018</b> (As restated - Note 6)	<b>2017</b> (As restated - Note 6)
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Net income	<b>P20,945,118,957</b>	P20,559,867,035
Adjustments for:		
Amortization of intangible asset	8 <b>7,903,044,793</b>	7,507,024,453
Interest expense	5, 14, 23 <b>6,640,204,984</b>	6,530,684,553
Depreciation	10 <b>503,209,167</b>	545,892,601
Unrealized foreign exchange loss	23 <b>377,690,655</b>	225,752,455
Interest income	11 <b>(280,621,789)</b>	(210,268,030)
Retirement benefits cost	22 <b>132,424,794</b>	208,541,226
Provision for impairment losses on receivables	12 <b>64,670,000</b>	64,670,000
Impairment of creditable withholding tax		935,967
Out-of-pocket benefit payments	22 <b>-</b>	(13,252,161)
Reversal of Impairment of VAT		-
		(245,993)
Operating income before working capital changes	<b>36,286,677,528</b>	35,419,601,417
Decrease (increase) in:		
Receivables	<b>(1,222,273,699)</b>	869,175,589
Prepaid expenses and other current assets	<b>(3,699,881,115)</b>	1,351,920,959
Increase (decrease) in:		
Trade and other current payables	<b>9,295,772,548</b>	5,788,490,084
Other current liabilities	<b>1,025,778,702</b>	1,076,799,835
Customers' and other deposits	<b>17,687,464</b>	27,508,267
Other noncurrent liabilities	<b>(45,878,346)</b>	(1,436,222,512)
Net cash generated from operations	<b>41,657,883,082</b>	43,097,273,639
Interest received	<b>259,726,128</b>	211,425,338
Interest paid	<b>(6,269,585,201)</b>	(6,336,343,139)
Contribution to retirement fund	<b>(35,088,503)</b>	-
Income tax paid	<b>(1,182)</b>	(2,281)
Net cash provided by operating activities	<b>35,612,934,324</b>	36,972,353,557
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Investment in capital expenditures	6, 13, 22 <b>(32,639,626,138)</b>	(22,211,782,506)
Additions to property and equipment	10 <b>(1,226,843,279)</b>	(617,784,368)
Increase in other noncurrent assets	<b>672,410</b>	(492,888)
Decrease in other investments	<b>-</b>	1,389,846,000
Net cash used in investing activities	<b>(33,865,797,007)</b>	(21,440,213,762)
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Proceeds of loans payable	14 <b>24,150,000,000</b>	23,000,000,000
Payment of cash dividends	17 <b>(19,262,971,400)</b>	(19,082,875,250)
Payment of loans payable	14 <b>(11,514,780,002)</b>	(12,824,990,211)
Transaction costs relating to issuance of shares	<b>(45,356,490)</b>	-
Net cash used in financing activities	<b>(6,673,107,892)</b>	(8,907,865,461)
<b>EFFECTS OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS</b>	<b>(68,713,029)</b>	(698,656)
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>	<b>(4,994,683,604)</b>	6,623,575,678
<b>CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR</b>	11 <b>18,620,977,088</b>	11,997,401,410
<b>CASH AND CASH EQUIVALENTS AT END OF YEAR</b>	11 <b>P13,626,293,484</b>	P18,620,977,088

See Notes to the Consolidated Financial Statements.

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

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**1. Reporting Entity**

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

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

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

On October 10, 1997, the SEC approved the Amendment to the Seventh Article of the Parent Company's Articles of Incorporation increasing the par value of its authorized capital stock from P0.01 to P1.00, decreasing the Parent Company's shares of stock from 500,000,000 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 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.

*Events after December 31, 2018*

On November 14, 2019, the Board of Directors (the "Board") 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 per share to P5.05 billion divided into 5.05 billion common shares at par value of P1 per share.

This amendment and increase in capital stock were pursued in connection with the issuance of 4.1 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 4.1 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 2.1 billion shares with a P1 par value of the Parent Company were to be swapped with 86.4 million shares of OTHI with a par value of P100 per share while the 2.0 billion shares of Parent Company were to be swapped with 871 million common shares of P21 with a par value of P1 per share.

As a result of the Share Swap Transaction, the Parent Company will legally and/or beneficially own 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 4,100,400,000 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.

As at the reporting date of the consolidated financial statements, the Parent Company’s shareholders are still in the process of securing the Certificate Authorizing Registration with the Bureau of Internal Revenue (BIR) in order to transfer in the name of the Parent Company the following shares:

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

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

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

\* Indirectly owned through OTHI

\*\* Indirectly owned through P21

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

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

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

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

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

NGCP is 30%-owned each by MOGRC and CHPC and was incorporated in the Philippines and registered with 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 February 28, 2008, the Group, through NGCP entered into a Concession Agreement with Power Sector Assets and Liabilities Management Corporation (PSALM) and the National Transmission Corporation (TRANSCO) granting the Group as Concessionaire the right to take over and operate the whole of TRANSCO's regulated transmission business was a going concern and be the sole representative of Regulated Entity before the Philippine Energy Regulatory Commission (ERC). The commencement date of the Concession Agreement is on January 15, 2009 and shall expire on the 25<sup>th</sup> anniversary of the commencement date. The Concession can be extended but not to exceed beyond the 50<sup>th</sup> anniversary of the commencement date or for longer than the remaining term of the Group's franchise (see Note 4).

### 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 2018 and 2017, 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*

Pursuant to the provisions of the Direct Agreement, 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.

*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.

Construction contracts related to the PUC are as follows:

- Batangas Transmission Reinforcement Project (Completed);
- Luzon (North) 230kV Transmission Upgrading Project 1 (Completed);
- Northern Panay Backbone Project (Completed);
- Mindanao Substation Expansion - 2005 (Completed);
- Maramag (Pulangi)-Bunawan 230kV Transmission Project (Completed);
- Biñan-Sucat 230 kV Line Upgrade (Completed);
- Hermosa-Balintawak 230 kV Transmission Line Relocation Project (Completed);
- Tap Hermosa-Balintawak 230kV Transmission Line Project (Completed);
- Transmission Line and Substation Project Package 1 & 2 (Completed);
- Wright-Calbayog 138 kV Transmission Project (Paranas-Carayman) (Completed);
- Zamboanga City Area 138 kV Transmission Project (Completed);
- Concepcion-Clark 230kV Transmission Project (Completed);
- Aurora-Polanco(Dipolog) 138 kV TL Project (Construction Ongoing);
- Luzon PCB Replacement Project 9 (Construction Ongoing); and
- Tacurong-Nuling 138kV TL Project (Construction Ongoing)

As of December 31, 2018, the Group entered into new construction contracts as follows:

- Antipolo 230KV Substation Project Sch.II;
- CNP Backbone Stage3, Phase1 (Schedule I) Bacolod & Barotac Viejo Primary Equipment and (Schedule II) Secondary;
- Bataan 230kV SS Project Stage 2 Including North Luzon SS Project Stage 1 (Secondary);
- CNP 230kV Backbone Project - Stage 2, Multi-Storey Facility and Associated Buildings;
- CNP 230KV Backbone Project - Stage 3 (Calatrava-Cadiz-EB Magalona), TL Supply (Schedule I -Steel Tower, Schedule II -Conductor & OHGW, Schedule III - Line Insulator and Schedule IV - Line Hardware);
- CNP 230kV Backbone Stage 2 (Cebu S/S) 230kV GIS Turnkey;
- Luzon Voltage Improvement Project 3, Stage 1, Schedule I (Bantay, Cabanatuan, Laoag, Mexico, Nagsaag and Tuguegarao Substations);
- Mariveles-Balsik (Hermosa) 500kV TL Erection;
- South Luzon Substation Upgrading Project - Stage 1, Schedule I - Design, Supply, Delivery, Installation, Testing & Commissioning of 1 x 300MVA Power transformer and Associated Equipment (Las Pinas Substation Portion);
- Sta. Rita-Quinapondan (SS portion) & Visayas Substation Reliability Project 2 (Bagolibas SS) Secondary;
- Tuy-Dasmariñas 500kV TL Erection and Project (SS Portion) Erection;
- Visayas Voltage Improvement Project, Stage 1 (Corella SS, Cebu SS and Compostela SS);
- Site Development of Green Corridor along Butaunon River affected by Cebu-Lapu-Lapu Trans Proj;

- General Santos Substation Expansion associated with Sarangani Energy Corp 105MW CFTPP Phase 2 Stage 2;
- North Luzon SS Upgrading Project Stage-1, SCH-I; SCH-III
- Design, Installation of Primary Equipment and Other Electrical Works Including Civil Works Under Antipolo 230kV Substation Project - Schedule I
- Antipolo 230kV Substation Project Sch.II
- CNP Backbone Stage3, Phase1 (Schedule I) Bacolod & Barotac Viejo Primary Equipment
- Mindanao-Visayas Interconnection Project, HVDC Converter & Electrode Station (2nd stage)
- Mindanao-Visayas Interconnection Project, Overhead Transmission Lines and Electrode Lines (Package A,B,C,E)
- Mindanao-Visayas Interconnection Project, Submarine Cable (2nd Stage)
- Mindanao - Visayas Interconnection Project (MVIP) Implementation Consultancy Services (Converter and Electrode Stations)
- Nabas-Caticlan-Boracay Submarine Cable
- Sta. Rita-Quinapondan (SS portion) & Visayas Substation Reliability Project 2 (Bagolibas SS) Secondary
- Site Development of Green Corridor along Butaunon River affected by Cebu-Lapu-Lapu Trans Proj
- Cebu-Negros-Panay Stage 3, Phase 2, Schedule II\_Secondary Devices\_Supply and Installation
- San Jose Substation 500kV Transformer Bank No. 4 Project - Design, Supply, Installation, Testing and Commissioning of 3 X 250 MVA, 500kV Transformer Bank in San Jose Substation
- Design, Installation of Primary Equipment and Other Electrical Works Including Construction of the Expansion/Upgrading of Tiwi Plant A & C Switchyards Under Tiwi Substation Upgrading Project - Schedule I
- Panit-an Nabas Line 2 Project and Nabas-Caticlan-Boracay Transmission Line Project Stage 1 (Boracay Substation)
- Tagbilaran 68kV SS Project
- Taguig 500kV SS Project
- Erection and Construction for CNP 230kV Backbone Project - Stage 3, Negros Side T/L (Calatrava S/S - Cadiz S/S - E.B. Magalona S/S)
- Taguig 500kV Substation Project (Associated TL-Land Portion)
- CNP 230kV Backbone Project - Stage 2, Multi-Storey Facility and Associated Buildings (Re-bidding)

For 2019, the projected Capital Expenditures approved by the Board on March 07, 2018 amounted to P36.92 billion.

As of December 31, 2017, the Group entered into new construction contracts as follows:

- Antipolo 230kv SS Supply;
- Calaca-Dasma 500kv TL Supply (Sched II,III,IV, V);
- Calamba 230kv SS Supply;
- Clark-Mabiga 69kv SS (Turnkey);
- Hermosa-Duhat 230kv TL Supply (Sched I,II,III, IV);
- Hermosa-San Jose 230kv Site Development;
- Hermosa-San Jose 500kv Supply (Sched I,II,IV, V);
- Hermosa-San Jose 500kv TL Erection;
- Naga (Visayas) 138kv SS Supply;
- Pagbilao SS (Turnkey);
- Panitan-Nabas 138kv Line 2 TL (Turnkey);
- Taguig EHV SS Site Development;
- Tiwi 230kv SS Supply;

- Antipolo 230kv SS Site Development;
- Butuan-Placer 138kv TL Erection;
- Calaca-Dasma 500kv TL Supply (Sched II);
- Hermosa-Duhat (Bored Pile) 230kv TL Construction;
- Hermosa-Duhat 230kv TL Construction;
- Hermosa-San Jose 500kv TL (SS portion) Turnkey;
- Mariveles-Balsik (Hermosa) 500kv SS Supply (Schedule III, IV);
- Mariveles-Balsik (Hermosa) 500kv TL Supply (Schedule I, II, III, IV);
- Mindanao 230kv Backbone TL Erection (Matanao-Toril-Bunawan);
- Mindanao 230kv Backbone TL (Turnkey) (Schedule I, II);
- Pagbilao TL Portion Supply;
- Design, Installation, Testing and Commissioning of Centralized Air-Conditioning System at NCC Building;
- Amlan-Mabinay-Kabankalan-Bacolod 138 kV Line 2 OPGW Retrofitting Project (PR No. 10028335);
- Calamba 230kV SS Erection and Turnkey;
- Cebu-Negros-Panay Stage 3 (CNP3): Submarine Cable;
- Clark-Mabiga 69kV TL Erection;
- Hermosa-San Jose 500kV TL (SS Portion) Turnkey;
- Mariveles-Balsik (Hermosa) 500kV SS Secondary Turnkey;
- Mindanao 230kV Backbone TL Turnkey (Schedule I, II);
- Naga (Visayas) 138kV SS (Remaining) Secondary;
- North Luzon Substation Upgrading Project, Stage - 1 Schedule II - Bauang, Hermosa, Malaya Substation, Sp17.NLSUP1.Lt-0342 (II);
- Pagbilao EHV Substation Project (Associated Transmission Line Project) Re-bidding;
- Permanent Restoration Works of Toppled Towers by Typhoon Nina (Erection & Construction) Schedule I - Naga-Daraga and Naga-Tiwi C Lines and Schedule II - Naga-Tiwi A and Naga-Tiwi C Lines;
- Western (Catillejos-Hermosa) Backbone 500kV TL Erection.

For 2018, the Capital Expenditures approved by the Board on July 05, 2017 amounted to P33.71 billion.

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

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

*Republic Act No. 9511*

Republic Act No. 9511 (RA 9511), which took effect on December 20, 2008, granted the Group 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 18).

Pursuant to Section 8 of RA 9511, NGCP is required to list, subject to the requirements of the SEC and the PSE, and make a public offering of the shares representing at least twenty *per centum* (20%) of its outstanding capital stock or a higher percentage that may hereafter be provided by law within ten (10) years from the commencement of its operations: Provided, That the listing in the PSE of any company which directly or indirectly owns or controls at least thirty per centum (30%) of the outstanding shares of stock of NGCP shall be considered full compliance of this listing requirement. In case compliance with this requirement is not reached, the ERC may, upon application of NGCP, and after notice and hearing, allow such reasonable extension of the period within which NGCP should list its shares of stock, if the market condition is not suitable for such listing (see Note 24). The Share Swap Transaction involving the Parent Company, OTHI and P21 is part of the active steps taken aimed to comply with this requirement.

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

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## **2. Basis of Preparation**

### Statement of Compliance

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

In addition to the financial statements previously issued on March 15, 2019, the Group issues these consolidated financial statements as at December 31, 2018 and 2017 to comply with the requirements of the SEC for the filing of registration statement in relation to the Parent Company's planned 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 as at and for the years ended December 31, 2018 and 2017 being restated as if the entities had always been combined for the periods that the entities were under common control (see Note 6).

The accompanying consolidated financial statements were authorized for issue by the Board of Directors (BOD) on August 10, 2021.

#### 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 the present value of the defined benefit obligation less the fair value of plan assets.

#### Functional and Presentation Currency

These consolidated financial statements are presented in Philippine peso, which is the Parent Company'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 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 comprehensive income and within equity in the consolidated statements of financial position, separately from the equity attributable to equity holders of the Parent Company.

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

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

#### Use of Judgments and Estimates

The preparation of the consolidated financial statements in conformity with PFRSs 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 financial consolidated 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.

### *Accounting Policy Applicable Starting January 1, 2018*

On initial recognition, the Group classifies its financial assets in the following categories: amortized cost; FVOCI - debt investment, FVOCI - equity investment or FVTPL. The classification of financial assets under PFRS 9 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).

### *Accounting Policy Applicable before January 1, 2018*

Financial assets are classified as financial assets at fair value through profit or loss (FVPL), held-to-maturity (HTM) investments, loans and receivables, available-for-sale (AFS) financial assets or as derivatives designated as hedging instruments in an effective hedge, as appropriate. Financial liabilities, on the other hand, are classified as financial liabilities at FVPL, other financial liabilities or as derivatives designated as hedging instruments in an effective hedge, as appropriate.

In addition, the Group classifies financial assets by evaluating, among others, whether the asset is quoted or not in an active market. Included in the evaluation on whether a financial asset is quoted in an active market is the determination on whether the quoted prices are readily and regularly available and whether those prices represent actual and regularly occurring market transactions on an arm's length basis.

### *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 comprehensive income and consolidated statements of changes in equity.

The fair values of the Group's financial instruments are presented in Note 23 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 whether an Arrangement Contains a Lease*

The Group uses its judgment in determining whether an arrangement contains a lease based on the substance of the arrangement and makes assessment of whether the arrangement is dependent on the use of a specific asset or assets, the arrangement conveys a right to use the asset and the arrangement transfers substantially all the risks and rewards incidental to ownership.

*Operating Leases - Group as Lessee*

The Group entered into various lease agreements as lessee. The Group has determined that the lessor retains all significant risks and rewards of ownership of these properties which are leased under operating lease agreements.

*Determining the Transaction Price - Regulated Transmission Services*

The Group assessed that amounts chargeable to customers based on approved and currently effective Maximum Allowable Revenue (MAR) best represent transaction price for its transmission services in a reporting period, considering the degree of uncertainty and substantive nature of the ERC's approvals under the applicable rate-setting methodology adopted in the present rules and regulations (see Notes 3, 19 and 27).

*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 of 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.*

*Accounting Policy Applicable starting January 1, 2018*

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 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.

As at December 31, 2018 and 2017, the analysis of allowance for impairment losses on receivables is presented in Note 12.

*Accounting Policy Applicable before January 1, 2018*

The Group reviews the collectibility of its receivables and maintains an allowance for impairment losses, if necessary, at a level considered adequate to provide for potential uncollectible receivables. The level of this allowance is evaluated by management on the basis of factors that affect the collectibility of the accounts. These factors include, but are not limited to, the length of the Group's relationship with counterparties, payment behaviors and known market factors. The Group reviews the age and status of receivables, and identifies accounts that are to be provided with allowances on a continuous basis.

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

The Group estimates the useful lives of property and equipment based on the period over which the assets are expected to be available for use. The estimated useful lives of property and equipment are reviewed periodically and are updated if expectations differ from previous estimates due to physical wear and tear, technical or commercial obsolescence and legal or other limits on the use of the assets.

In addition, estimation of the useful lives of property and equipment is based on the collective assessment of industry practice, internal technical evaluation and experience with similar assets. It is possible, however, that future results of operations could be materially affected by changes in these estimates brought about by changes in the factors mentioned above. The amounts and timing of recorded expenses for any period would be affected by the changes in these factors and circumstances. A reduction in the estimated useful lives of property and equipment would increase the recorded depreciation and amortization expenses and decrease noncurrent assets.

The carrying amount of the Group's property and equipment as at December 31, 2018 and 2017 amounted to P3.73 billion and P3.0 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 2018 and 2017. As at December 31, 2018 and 2017, 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 residual value of the intangible assets arising from the service concession is determined using the roll-forward mechanism following the release by the Energy Regulatory Commission (ERC) of the Regulatory Reset Position Paper dated July 12, 2016 for the Fourth Regulatory Period of the Distribution Utilities (DUs) which introduced the roll-forward methodology in determining the value of Regulatory Asset Base (RAB) as basis by the regulated entity in determining the reasonable return on capital. For purposes of roll-forward of RAB during the Fourth Regulatory period, the ERC will engage a Regulatory Reset Expert to develop a RAB Handbook which will apply to all Regulated Entities in the subsequent regulatory periods, which may include NGCP.

At the judgement of Management, the concept of RAB may be applicable to the situation of NGCP. The estimated residual value of the intangible assets at the end of concession contract was determined based on available records using as basis the remaining ERC approved estimated economic life of the new transmission assets installed by the Group during concession period that give rise to additional intangible assets from completed projects. 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 of 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 of December 31, 2018, the estimated residual value of intangible assets from completed projects at the end of the concession period amounted to P28.32 billion.

#### *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 in 2018 and 2017. The carrying amount of goodwill amounted to P10.47 billion as at December 31, 2018 and 2017 (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.

#### *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 2018 and 2017 amounted to P132.42 million and P208.54 million, respectively. Retirement benefits liability as at December 31, 2018 and 2017 amounted to P1.06 billion and P1.03 billion, respectively (see Note 22).

#### *Impairment of Nonfinancial Assets*

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

Management believes that there is no indication of impairment loss in the carrying value of the Group's property and equipment and intangible asset as at December 31, 2018 and 2017.

#### *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 the defense in 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 24).

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### **3. Summary of Significant Accounting Policies**

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

#### Adoption of New or Revised Standards, Amendments to Standards and Interpretations

The Group has adopted the following new or revised standards, amendments to standards and interpretations starting January 1, 2018 and accordingly, changed its accounting policies. Except as otherwise indicated, the adoption of these amendments to standards and interpretations did not have any significant impact on the Group's consolidated financial statements.

- *PFRS 9, Financial Instruments (2014)*. *PFRS 9 (2014)* replaces *PAS 39, Financial Instruments: Recognition and Measurement* and supersedes the previously published versions of PFRS 9 that introduced new classifications and measurement requirements (in 2009 and 2010) and a new hedge accounting model (in 2013). PFRS 9 includes revised guidance on the classification and measurement of financial assets, including a new expected credit loss model for calculating impairment, guidance on own credit risk on financial liabilities measured at fair value and supplements the new general hedge accounting requirements published in 2013. PFRS 9 incorporates new hedge accounting requirements that represent a major overhaul of hedge accounting and introduces significant improvements by aligning the accounting more closely with risk management.

The Group has adopted PFRS 9 and has not restated the comparative information. The adoption of PFRS 9 has no significant effect on the classification, measurement and impairment of financial instruments of the Group.

The Group has elected to continue to adopt PAS 39 for hedge accounting.

For each class of the Group's financial assets as at January 1, 2018, changes have been made on the original classification categories under PAS 39 and the new classification categories under PFRS 9.

Cash and cash equivalents and power and other receivables that were classified as loans and receivables under PAS 39 are now classified at amortized cost. There was no increase in the allowance for impairment over these receivables in the opening retained earnings at January 1, 2018 since transition to PFRS 9 had no significant effect on these financial assets.

Under PFRS 9, 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 under PFRS 9 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.

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 measured at amortized cost or at FVOCI as at FVTPL if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise.

A financial asset (unless it is a trade receivable without a significant component that is initially measured at the transaction price) is initially measured at fair value plus, for an item not at FVTPL, transaction costs that are directly attributable to its acquisition.

### *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.

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 of December 31, 2018. Other financial assets are classified as financial assets at FVPL 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. As permitted by PFRS 9, the Group has designated these investments at the date of initial application as measured at FVOCI. Unlike PAS 39, the accumulated fair value reserve related to these investments will never be reclassified to profit or loss.

### *Impairment of Financial Assets*

PFRS 9 replaces the 'incurred loss' model in PAS 39 with an 'expected credit loss' (ECL) model. The new impairment model applies to financial assets measured at amortised cost, contract assets and debt investments at FVOCI, but not to investments in equity instruments. Under PFRS 9, credit losses are recognised earlier than under PAS 39. The financial assets at amortised cost consist of current power receivables, cash and cash equivalents, due from customers, restructured power receivables, interest receivables, due from officers and employees and other receivables, non-current power receivables and non-current restructured power receivables.

Under PFRS 9, loss allowances are measured on either of the following bases:

- 12-month ECLs: these are ECLs that result from possible default event within the 12 months after the reporting date; and
- lifetime ECLs: these are ECLs that result from all possible default events over the expected life of a financial instrument.

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 and other receivables 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.

#### *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:

- (a) significant financial difficulty of the issuer or the borrower;
- (b) a breach of contract, such as a default or past due event;
- (c) 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;
- (d) it is becoming probable that the borrower will enter bankruptcy or other financial reorganization;
- (e) the disappearance of an active market for that financial asset because of financial difficulties; or
- (f) 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 and other receivables are presented separately in the consolidated statements of profit or loss and OCI.

Power and other receivables that were classified as loans and receivables under PAS 39 are now classified at amortised cost. There was no increase in the allowance for impairment over these receivables in the opening retained earnings at January 1, 2018 since transition to PFRS 9 has no significant effect on the Group's accounting policies related to these financial assets.

#### *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.

- *PFRS 15, Revenue from Contracts with Customers replaces PAS 11, Construction Contracts, PAS 18, Revenue, IFRIC 13, Customer Loyalty Programmes, IFRIC 18, Transfer of Assets from Customers and SIC-31, Revenue - Barter Transactions Involving Advertising Services.* The new standard introduces a new revenue recognition model for contracts with customers which specifies that revenue should be recognized when (or as) a company transfers control of goods or services to a customer at the amount to which the company expects to be entitled. Depending on whether certain criteria are met, revenue is recognized over time, in a manner that best reflects the company's performance, or at a point in time, when control of the goods or services is transferred to the customer. The standard does not apply to insurance contracts, financial instruments or lease contracts, which fall in the scope of other PFRSs. It also does not apply if two companies in the same line of business exchange nonmonetary assets to facilitate sales to other parties. Furthermore, if a contract with a customer is partly in the scope of another PFRS, then the guidance on separation and measurement contained in the other PFRS takes precedence.

The Group adopted PFRS 15 retrospectively which resulted to the following reclassifications in the consolidated statements of financial position:

	As Previously Reported	Adjustments	As Restated
December 31, 2017			
Current Asset			
Prepaid expenses and other current assets	P8,378,643,077	P11,551,383,011	P19,930,026,088
Noncurrent Asset			
Other noncurrent asset	11,551,383,011	(11,551,383,011)	-
January 1, 2017			
Current Asset			
Prepaid expenses and other current assets	3,256,085,272	4,573,582,419	7,829,667,691
Noncurrent Asset			
Other noncurrent asset	4,573,582,419	(4,573,582,419)	-

Before the adoption of PFRS 15, materials, supplies and spare parts are classified under other noncurrent assets. The previous classification was based on the Group's assessment that the utilization of these assets are concurrent with the intangible asset which is more than one year. With the implementation of PFRS 15, management assessed that these assets are consumed when deployed in the ordinary course of providing construction and upgrade services and revised the classification to other current asset.

Further to the adoption of PFRS 15, the previously classified "Asset Under Construction" under "Intangible asset - net" have been reclassified to "Contract Assets" representing the Group's accumulating right to be paid for providing construction and upgrade services (see Note 8).

The adoption of this new standard has no other significant impact on the consolidated financial statements of the Group based on the result of its assessment.

The following further explains revenue recognition for the Group's revenue streams:

*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.

*Revenue from Transmission Services Operating Income*

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

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

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

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

*Revenue from Connection and Residual Sub-transmission Charges*

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

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

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

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

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

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

1. Power delivery service charge
2. Connection charge
3. Residual sub-transmission charge
4. Metering service provider 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 distribution or 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 lease of equipment, electric facilities, office space and co-location.

- Philippine Interpretation IFRIC 22, *Foreign Currency Transactions and Advance Consideration*. The interpretation clarifies that the transaction date to be used for translation for foreign currency transactions involving an advance payment or receipt is the date on which the entity initially recognizes the prepayment or deferred income arising from the advance consideration. For transactions involving multiple payments or receipts, each payment or receipt gives rise to a separate transaction date. The interpretation applies when an entity pays or receives consideration in a foreign currency and recognizes a non-monetary asset or liability before recognizing the related item.

Except as otherwise indicated, the adoption of the new and amended standards and interpretation did not have a material effect on the consolidated financial statements.

#### New and Revised Standards, Amendments to Standards and Interpretations Not Yet Adopted

A number of new and revised standards, amendments to standards and interpretations are effective for annual periods beginning after January 1, 2018 and have not been applied in preparing these consolidated financial statements. Except as other indicated, none of these is expected to have a significant effect on the consolidated financial statements of the Group.

#### *Effective January 1, 2019*

- PFRS 16, *Leases* supersedes PAS 17, *Leases* and the related Philippine Interpretations. The new standard introduces a single lease accounting model for lessees under which all major leases are recognized on-balance sheet, removing the lease classification test. Lease accounting for lessors essentially remains unchanged except for a number of details including the application of the new lease definition, new sale-and-leaseback guidance, new sub-lease guidance and new disclosure requirements. Practical expedients and targeted reliefs were introduced including an optional lessee exemption for short-term leases (leases with a term of 12 months or less) and low-value items, as well as the permission of portfolio-level accounting instead of applying the requirements to individual leases. New estimates and judgmental thresholds that affect the identification, classification and measurement of lease transactions, as well as requirements to reassess certain key estimates and judgments at each reporting date were introduced.

PFRS 16 is effective for annual periods beginning on or after January 1, 2019. Earlier application is permitted for entities that apply PFRS 15 at or before the date of initial application of PFRS 16.

At initial adoption of PFRS 16 on January 1, 2019, in relation to leases classified as operating leases, the Group estimates to recognize P229.63 million of right-of-use asset and lease liability.

*Effective January 1, 2020*

- *Amendments to References to Conceptual Framework in PFRS Standards* sets out amendments to PFRS Standards, their accompanying documents and PFRS practice statements to reflect the issuance of the revised Conceptual Framework for Financial Reporting in 2018 (2018 Conceptual Framework). The 2018 Conceptual Framework includes:
  - a new chapter on measurement;
  - guidance on reporting financial performance;
  - improved definitions of an asset and a liability, and guidance supporting these definitions; and
  - clarifications in important areas, such as the roles of stewardship, prudence and measurement uncertainty in financial reporting.

Some Standards, their accompanying documents and PFRS practice statements contain references to, or quotations from, the International Accounting Standards Committee (IASC)'s Framework for the Preparation and Presentation of Financial Statements adopted by the International Accounting Standards Board (IASB) in 2001 or the Conceptual Framework for Financial Reporting issued in 2010. The amendments update some of those references and quotations so that they refer to the 2018 Conceptual Framework, and makes other amendments to clarify which version of the Conceptual Framework is referred to in particular documents.

These amendments are effective for annual reporting periods beginning on or after January 1, 2020.

- *Definition of Material (Amendments to PAS 1 Presentation of Financial Statements and PAS 8 Accounting Policies, Changes in Accounting Estimates and Errors)*. The amendments refine the definition of material. The amended definition of material states that information is material if omitting, misstating or obscuring it could reasonably be expected to influence the decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity.

The amendments clarify the definition of material and its application by:

- (a) raising the threshold at which information becomes material by replacing the term 'could influence' with 'could reasonably be expected to influence';
- (b) including the concept of 'obscuring information' alongside the concept of 'omitting' and 'misstating' information in the definition;

- (c) clarifying that the users to which the definition refers are the primary users of general purpose financial statements referred to in the Conceptual Framework;
- (d) clarifying the explanatory paragraphs accompanying the definition; and
- (e) aligning the wording of the definition of material across PFRS Standards and other publications.

The amendments are expected to help entities make better materiality judgements without substantively changing existing requirements.

The amendments apply prospectively for annual periods beginning on or after January 1, 2020. Earlier application is permitted.

#### *Effective June 1, 2020*

- *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 June 30, 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, with earlier application permitted. 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.

#### *Effective January 1, 2021*

- *Interest Rate Benchmark Reform - Phase 2 (Amendments to PFRS 9, PAS 39, Financial Instruments: Recognition and Measurement, PFRS 7, Financial Instruments: Disclosures, PFRS 4, Insurance Contracts and PFRS 16, Leases)*. The amendments address issues that might affect financial reporting as a result of the reform of an interest rate benchmark, including the effects of changes to contractual cash flows or hedging relationships arising from the replacement of an interest rate benchmark with an alternative benchmark rate. The amendments provide practical relief from certain requirements in PFRS 9, PAS 39, PFRS 17, PFRS 4 and PFRS 16 relating to: changes in the basis for determining contractual cash flows of financial assets, financial liabilities and lease liabilities; and hedge accounting.

*Effective January 1, 2022*

- *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.

*Effective January 1, 2023*

- *Classification of Liabilities as Current or Non-current (Amendments to PAS 1, Presentation of Financial Statements)*. To promote consistency in application and clarify the requirements on determining if a liability is current or non-current, the IASB has amended PAS 1, Presentation of Financial Statements and the amendments could have a significant impact on classification of liabilities.
  - Right to defer settlement must have substance;
  - Classification of rollover facilities may change; and
  - Convertible debt may become current.
- *Definition of Accounting Estimates (Amendments to PAS 8, Accounting Policies, Changes in Accounting Estimates and Errors)*. To clarify the distinction between changes in accounting policies and changes in accounting estimates, the amendments introduce a new definition for accounting estimates, clarifying that they are monetary amounts in the financial statements that are subject to measurement uncertainty. The amendments also clarify the relationship between accounting policies and accounting estimates by specifying that an accounting estimate is developed to achieve the objective set out by an accounting policy. Developing an accounting estimate includes both selecting a measurement technique and choosing the inputs to be used when applying the chosen measurement technique. The effects of changes in such inputs or measurement techniques are changes in accounting estimates. The definition of accounting policies remain unchanged. The amendments also provide examples on the application of the new definition.

The amendments 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.

- 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 include 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.

#### Service Concession Arrangements

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

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

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

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

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

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

#### Intangible Asset

##### *Service Concession Arrangement*

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

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

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

Subsequent performance of construction and upgrade services, 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 in 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.

#### 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.

### Financial Instruments

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.

#### *Accounting policy Applicable before January 1, 2018:*

##### *Initial Recognition*

Financial assets are classified as either financial assets at fair value through profit or loss (FVPL), loans and receivables, held-to-maturity investments (HTM), or available-for-sale (AFS) financial assets, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. When financial assets are initially recognized, they are measured at fair value. In the case of investments not at FVPL, fair value at initial recognition includes directly attributable transaction costs. The Group determines the classification of its financial assets and financial liabilities upon initial recognition and, where allowed and appropriate, re-evaluates this designation at each reporting date. Financial liabilities are classified as financial liabilities at FVPL, other financial liabilities, or as derivatives designated as hedging instruments in an effective hedge, as appropriate. The classification of the financial liability is determined at initial recognition. Financial liabilities are recognized initially at fair value and in the case of other financial liabilities, inclusive of directly attributable transaction costs.

The Group has no HTM investments and AFS financial assets.

*Financial Assets at FVPL.* A financial asset is classified as at FVPL if it is classified as held for trading or is designated as such upon initial recognition. Financial assets are designated as at FVPL if the Group manages such investments and makes purchase and sale decisions based on their fair value in accordance with the Group's documented risk management or investment strategy. Derivative instruments (including embedded derivatives), except those covered by hedge accounting relationships, are classified under this category.

Financial assets are classified as held for trading if they are acquired for the purpose of selling in the short term.

Financial assets may be designated by management at initial recognition at FVPL, when any of the following criteria is met:

- the designation eliminates or significantly reduces the inconsistent treatment that would otherwise arise from measuring the assets or recognizing gains or losses on a different basis;
- the assets are part of a group of financial assets which are managed and their performances are evaluated on a fair value basis, in accordance with a documented risk management or investment strategy; or
- the financial instrument contains an embedded derivative, unless the embedded derivative does not significantly modify the cash flows or it is clear, with little or no analysis, that it would not be separately recognized.

The Group carries financial assets at FVPL using their fair values. Attributable transaction costs are recognized in profit or loss as incurred. Fair value changes and realized gains or losses are recognized in profit or loss. Fair value changes from derivatives accounted for as part of an effective accounting hedge are recognized in other comprehensive income and presented in the consolidated statements of changes in equity. Any interest earned shall be recognized as part of "Interest income" account in profit or loss. Any dividend income from equity securities classified as at FVPL shall be recognized in profit or loss when the right to receive payment has been established.

The Group applies cash flow hedge accounting to its derivative asset (see Note 23).

*Loans and Receivables.* Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are not entered into with the intention of immediate or short-term resale and are not designated as AFS financial asset or FVPL financial asset.

Subsequent to initial measurement, loans and receivables are carried at amortized cost using the effective interest rate method. Any interest earned on loans and receivables shall be recognized as part of "Interest income" in profit or loss on an accrual basis. Gains or losses are recognized in profit or loss when loans and receivables are derecognized or impaired.

The Group's cash and cash equivalents and receivables are included in this category (see Notes 11 and 12).

Cash includes cash on hand and in banks and is stated at its face value. Cash equivalents are short-term, highly liquid instruments that are readily convertible to known amounts of cash with original maturities of three months or less from dates of acquisition and that are subject to an insignificant risk of change in value.

#### Financial Liabilities

*Financial Liabilities at FVPL.* Financial liabilities at fair value through profit or loss include financial liabilities held for trading and financial liabilities designated upon initial recognition as at fair value through profit or loss.

Financial liabilities are classified as held for trading if they are incurred for the purpose of repurchasing in the near term. This category also includes derivative financial instruments entered into by the Group that are not designated as hedging instruments in hedge relationships as defined by PAS 39. Separated embedded derivatives are also classified as held for trading unless they are designated as effective hedging instruments.

Gains or losses on liabilities held for trading are recognized in the statement of profit or loss.

Financial liabilities designated upon initial recognition at fair value through profit or loss are designated at the initial date of recognition, and only if the criteria in PAS 39 are satisfied.

The Group applies cash flow hedge accounting to its derivative liability (see Note 23).

*Other Financial Liabilities.* After initial recognition, other financial liabilities are carried at amortized cost, taking into account the impact of applying the effective interest method of amortization (or accretion) for any related premium, discount and any directly attributable transaction costs. Other financial liabilities are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for more than twelve (12) months after the reporting date.

Other financial liabilities include trade and other current payables, concession fee payable, loans payable, customers' and other deposits, other current liabilities and other noncurrent liabilities.

#### Derecognition of Financial Assets and Liabilities

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

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

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

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

#### Derivative Financial Instruments and Hedging

Hedging instruments are designated derivatives or designated non-derivative financial assets or non-derivative financial liabilities whose fair value or cash flows are expected to offset changes in the fair value or cash flows of a designated hedged item. When a derivative is designated as cash flow hedging instrument, the effective portion of changes in the fair value of the derivative is recognized in Other Comprehensive Income (OCI) and accumulated in the hedging reserve. Any ineffective portion of changes in the fair value of the derivative is recognized immediately in profit or loss. Derivative financial instruments are initially recognized at fair value on the date in which a derivative transaction is entered into or bifurcated, and are subsequently re-measured and accounted for in the consolidated statements of financial position at fair value.

The objective of hedge accounting is to match the impact of the hedged item and the hedging instrument in comprehensive income. To qualify for hedge accounting, the hedging relationship must comply with strict requirements such as the designation of the derivative as a hedge of an identified risk exposure, hedge documentation, probability of occurrence of the forecasted transaction in a cash flow hedge, assessment and measurement of hedge effectiveness, and reliability of the measurement bases of the derivative instruments.

At the inception of a hedge relationship, the Group formally designates and documents the hedge relationship to which it wishes to apply hedge accounting and the risk management objective and strategy for undertaking the hedge. The documentation includes identification of the hedging instrument, the hedged item or transaction, the nature of the risk being hedged and how the entity will assess the hedging instrument's effectiveness in offsetting the exposure to changes in the hedged item's fair value or cash flows attributable to the hedged risk, and whether the actual results of each hedge are within a range of 80 - 125 percent. Such hedges are expected to be highly effective in achieving offsetting changes in fair value or cash flows and are assessed on an on-going basis to determine that they actually have been highly effective throughout the financial reporting periods for which they were designated.

The Group's derivative financial instruments are accounted for as cash flow hedges.

*Cash Flow Hedges.* Cash flow hedges are hedges of the exposure to variability in cash flows that is attributable to a particular risk associated with a recognized asset, liability or a highly probable forecast transaction and could affect profit or loss. Changes in the fair value of a hedging instrument that qualifies as a highly effective cash flow hedge are recognized in other comprehensive income and presented within equity as "Hedging Reserve". The ineffective portion of the gain or loss on the hedging instrument is recognized immediately in profit or loss.

Amounts taken to equity are transferred to profit or loss when the hedged transaction affects profit or loss, such as when the hedged financial income or financial expense is recognized or when a forecast sale or purchase occurs. Where the hedged item is the cost of a non-financial asset or liability, the amounts taken to equity are reclassified to profit or loss as a reclassification adjustment in the same period or periods during which the asset acquired or liability assumed affects the profit or loss. However, if an entity expects that all or a portion of a loss recognized in other comprehensive income will not be recovered in one or more future periods, it shall reclassify from equity to profit or loss the amount that is not expected to be recovered.

Hedge accounting is discontinued prospectively when the hedge ceases to be highly effective. When hedge accounting is discontinued, the cumulative gains or losses on the hedging instrument that has been presented as "Hedging Reserve" are transferred to profit or loss. When the forecasted transaction is no longer expected to occur, any net cumulative gains or losses previously reported in other comprehensive income is recognized immediately 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 financial consolidated 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:

	<u>Number of Years</u>
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 Assets.* A financial asset is assessed at each reporting date to determine whether there is any objective evidence that it is impaired. A financial asset is considered to be impaired if objective evidence indicates that one or more events have had a negative effect on the estimated future cash flows of that asset.

An impairment loss in respect of a financial asset measured at amortized cost is calculated as the difference between its carrying amount and the present value of the estimated cash flows discounted at the original effective interest rate.

All impairment losses are recognized in profit or loss.

#### *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.

*Hedging Reserve.* The hedging reserve comprises the effective portion of the cumulative net change in the fair value of hedging instruments used in cash flow hedges pending subsequent recognition in profit or loss as the hedged cash flows affect profit or loss.

*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 represent 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

##### *Accounting Policy Applicable before January 1, 2018*

Under Philippine Interpretation IFRIC 12, the Group accounts for its construction services pertaining to additional infrastructure projects or system upgrade in accordance with PAS 11, *Construction Revenue*, as disclosed in Note 19 to the consolidated financial statements and its operation services in accordance with PAS 18, *Revenue*.

*Construction Services.* Revenue from construction services and construction costs are recognized using the percentage-of-completion method under PAS 11 on Construction Contract by reference to the proportion of costs incurred to date to the estimated total costs for each contract.

Construction revenue is measured at the fair value of the intangible asset received as consideration which is equivalent to the fair value of the construction services rendered by the third party contractor.

*Operation Services.* Revenue from operations is recognized when services are rendered and to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured.

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 of month-end cut-off date requires the use of estimates based on the number of days of the customers' unbilled consumption. The difference between the amount initially recognized and the actual billing is adjusted upon reconciliation in the following period.

Interest income is recognized when earned.

Expenses are recognized when incurred.

#### Operating Leases

Leases, where the lessor retains substantially all the risks and benefits or ownership and leased assets are not recognized on the Group's statements of financial position, are classified as operating leases. Operating lease payments are recognized in profit or loss 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 23.

#### 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 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

As discussed in Note 1, 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.

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## **4. Concession Agreement**

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

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

### Concession Agreement

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

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

On February 28, 2008, the Group, through NGCP entered into a Concession Agreement with PSALM and TRANSCO granting the Group as Concessionaire the right to take over and operate the whole of TRANSCO's regulated transmission business as a going concern and be the sole representative of TRANSCO before the ERC. The Concession Agreement is for a 25-year period starting on January 15, 2009 (Commencement Date) and ending on January 15, 2034 (Full Term Expiration Date), which can be extended provided the concession period shall not be extended beyond the 50<sup>th</sup> anniversary of the Commencement Date (the "Term") or for longer than the remaining term of the Group'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 of 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 (see Note 5).
- 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 5).
- 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 5).

- 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 of 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 of 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 of 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 of the expiration date determined.

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

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

#### Standby Letter of Credit

In compliance with the terms and conditions of the Concession Agreement, the Group obtained an Irrevocable Standby Letter of Credit (SBLC) with China Banking Corporation amounting to US\$79.00 million in favor of PSALM which is effective November 7, 2018 until November 7, 2019.

#### Transferred Contracts

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

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### **5. Concession Fee**

As discussed in Note 4 to the consolidated financial statements, the Group shall pay PSALM US\$3.95 billion (P172.99 billion) as Concession Fee. Such fee is recognized as part of "Intangible asset" account in the consolidated statements of financial position as at December 31, 2018 and 2017 (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 from the Investors (see Note 17).

The balance of the Concession Fee of US\$2.962 billion was converted to peso liability at a fixed exchange rate of P42.75 to one 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 Notes 5, 15, and 23).

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 of 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 Notes 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/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 16 June 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 01 January 2016 to 31 December 2020, interest rate applied was 6.5391%.

Interest expense on Deferred Payments in 2018 and 2017 recognized in profit or loss amounted to P3.55 billion (see Notes 15 and 23).

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## **6. Business Combination under Common Control**

As discussed in Note 1, on May 28, 2021, the shares related to the Share Swap Transaction were deemed issued following Philippine SEC’s approval on the increase in authorized capital stock of the Parent Company. The business combination involving OTHI and P21 including NGCP (collectively referred to as the “acquired subsidiaries”) and SGDPI qualified as 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 control SGDPI and the acquired subsidiaries before and after the acquisition.

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.

The consolidated financial statements of SGDPI as at and for the years ended December 31, 2018 and 2017 were restated as if the entities had always been combined for the periods that the entities were under common control.

The restated amounts in the consolidated statement financial position as at December 31, 2018 as a result of the retrospective accounting of the business combination under common control were as follows:

	Adjustment from the Retrospective Application of Pooling of Interest Method for Business Combination of Entities under Common Control									
	Statement of Financial Position of SGDP	Consolidated Statement of Financial Position of OTH	Consolidated Statement of Financial Position of P21	Statement of Financial Position of NGCP	Share Swap Transaction	Elimination of Investment in OTH, P21 and NGCP	Reclassification	Consolidated Statement of Financial Position of SGDP		
<b>ASSETS</b>										
<b>Noncurrent Assets</b>										
Intangible asset - net	P -	P -	P -	P210,687,541,385	P -	P -	P -	P210,687,541,385		
Investment	-	19,259,861,050	19,237,260,475	-	82,008,000,000	(120,505,121,525)	-	10,471,611,069		
Goodwill	-	10,227,305,210	-	-	-	244,305,859	-	3,729,184,732		
Property and equipment - net	-	11,220,604	2,168,045	3,715,796,083	-	-	-	1,466,752		
Receivables - net of current portion	-	-	-	1,466,752	-	-	-	76,378,374		
Other noncurrent assets	-	1,346,311	532,945	74,499,118	-	-	-	-		
<b>Total Noncurrent Assets</b>	-	29,499,733,175	19,239,961,465	214,479,303,338	82,008,000,000	(120,260,815,666)	-	224,966,182,312		
<b>Current Assets</b>										
Cash and cash equivalents	6,277,275	225,097,083	121,465,823	13,273,453,303	-	-	-	13,626,293,484		
Receivables - net	-	-	65,000	10,277,569,799	-	-	-	10,277,534,799		
Prepaid expenses and other current assets	-	1,215,540,786	7,159,504	25,450,200,987	-	-	-	26,672,901,277		
Derivative asset	-	-	-	-	-	-	-	-		
<b>Total Current Assets</b>	6,277,275	1,440,637,869	128,690,327	49,001,224,089	-	-	-	50,576,829,560		
	P6,277,275	P30,940,371,044	P19,368,651,792	P263,480,527,427	P82,008,000,000	(P120,260,815,666)	P -	P275,543,011,872		

Forward

	Adjustment from the Retrospective Application of Pooling of Interest Method for Business Combination of Entities under Common Control									
	Statement of Financial Position of SGDP1	Consolidated Statement of Financial Position of OTHI	Consolidated Statement of Financial Position of P21	Statement of Financial Position of NGCP	Share Swap Transaction	Elimination of Investment in OTHI, P21 and NGCP	Reclassification	Consolidated Statement of Financial Position of SGDP1		
<b>LIABILITIES AND EQUITY</b>										
<b>Noncurrent Liabilities</b>	<b>P -</b>	<b>P -</b>	<b>P -</b>	<b>P94,350,568,008</b>	<b>P -</b>	<b>P -</b>	<b>P -</b>	<b>P94,350,568,008</b>		
Loans payable - net of current portion	-	-	-	1,055,026,566	-	-	-	1,055,026,566		
Retirement benefits liability	-	-	-	319,758,218	-	-	-	319,758,218		
Customers' and other deposits	-	-	-	54,319,128,352	-	-	-	54,319,128,352		
Concession fee payable	-	-	-	2,470,995,501	-	-	-	2,470,995,501		
Other noncurrent liabilities	6,506	6,699	-	-	-	-	-	2,471,008,706		
<b>Total Noncurrent Liabilities</b>	<b>6,506</b>	<b>6,699</b>	<b>-</b>	<b>152,515,476,645</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>152,515,489,850</b>		
<b>Current Liabilities</b>										
Trade and other current payables	473,334	135,164,617	936,349,666	32,109,460,473	-	-	(843,429,132)	32,338,018,658		
Current portion of loans payable	-	-	-	8,927,558,477	-	-	-	8,927,558,477		
Other current liabilities	-	1,210,500,034	56	6,173,339,355	-	-	843,429,132	8,227,268,577		
<b>Total Current Liabilities</b>	<b>473,334</b>	<b>1,345,664,651</b>	<b>936,349,722</b>	<b>47,210,358,005</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>49,492,845,712</b>		
<b>Total Liabilities</b>	<b>479,840</b>	<b>1,345,671,350</b>	<b>936,349,722</b>	<b>199,725,834,650</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>202,008,335,562</b>		
<b>Equity</b>										
Capital stock	49,466,000	12,900,000,000	1,300,000,000	2,000,000,000	4,100,400,000	(16,200,000,000)	-	4,149,866,000		
Additional paid-in capital	-	3,208,700,000	-	44,843,375,000	77,907,600,000	(48,052,075,000)	-	77,907,600,000		
Hedging reserve	-	-	-	-	-	-	-	-		
Remeasurements gains(losses) on defined benefit liability	-	-	-	4,786,815	-	(2,862,515)	-	1,924,300		
Share in other comprehensive income (loss) of an associate	-	1,436,044	1,436,044	-	-	(2,872,088)	-	-		
Equity adjustments from common control transactions	-	-	-	16,906,530,962	-	(73,359,171,000)	-	(73,359,171,000)		
Retained earnings	(43,668,565)	13,484,563,650	17,130,866,026	-	-	(9,230,325,908)	-	38,247,966,165		
<b>Equity Attributable to Equity Holders of the Parent Company</b>	<b>5,797,435</b>	<b>29,594,699,694</b>	<b>18,432,302,070</b>	<b>63,754,692,777</b>	<b>82,008,000,000</b>	<b>(146,847,306,511)</b>	<b>-</b>	<b>46,948,185,465</b>		
<b>Non-controlling interest</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>26,586,490,845</b>	<b>-</b>	<b>26,586,490,845</b>		
<b>Total Equity</b>	<b>5,797,435</b>	<b>29,594,699,694</b>	<b>18,432,302,070</b>	<b>63,754,692,777</b>	<b>82,008,000,000</b>	<b>(120,260,815,666)</b>	<b>-</b>	<b>73,534,676,310</b>		
	<b>P6,277,275</b>	<b>P30,940,371,044</b>	<b>P19,368,651,792</b>	<b>P263,480,527,427</b>	<b>P82,008,000,000</b>	<b>(P120,260,815,666)</b>	<b>P -</b>	<b>P275,543,011,872</b>		

The restated amounts in the consolidated statement of income and consolidated statement of comprehensive income for the year ended December 31, 2018 as a result of the retrospective accounting of the business combination under common control were as follows:

	Adjustment from the Retrospective Application of Pooling of Interest Method for Business Combination of Entities under Common Control							
	Statement of Income of SGDPI	Consolidated Statement of Income of OTHI	Consolidated Statement of Income of P21	Statement of Income of NGCP	Share of Noncontrolling Interests in Net Income of OTHI, P21 and NGCP	Elimination of Investment in OTH, P21 and NGCP	Consolidated Statement of Income of SGDPI	
REVENUES - Net	P -	P -	P -	P45,402,003.003	P -	P -	P45,402,003.003	
<b>EXPENSES</b>								
Amortization of intangible asset	-	-	-	-	-	-	-	-
Salaries, wages and employee benefits	5,073,992	1,059,373	1,780,966	7,903,044,793	-	-	7,903,044,793	4,227,226,405
Repairs and maintenance	5,500	60,684	423,931	981,322,600	-	-	981,322,600	981,812,715
Depreciation	-	4,238,655	1,440,124	497,530,388	-	-	503,209,167	503,209,167
Supervision and regulatory fees	-	-	-	468,433,750	-	-	468,433,750	468,433,750
Insurance	1,122	-	140,351	414,466,974	-	-	414,608,447	414,608,447
Security and janitorial	-	-	634,206,132	634,206,132	-	-	634,206,132	634,206,132
Communication, light and water	-	33,344	450,881	386,031,651	-	-	386,515,876	386,515,876
Public relation and corporate social responsibility	-	-	-	332,910,947	-	-	332,910,947	332,910,947
Outside services	-	-	-	168,388,175	-	-	168,388,175	168,388,175
Transportation and travel	2,903	36,765	244,697	400,928,231	-	-	401,212,596	401,212,596
Supplies and tools	13,400	177,091	453,161	199,142,889	-	-	199,786,541	199,786,541
Representation and entertainment	-	137,003	440,317	134,725,775	-	-	135,303,095	135,303,095
Fuel and oil	-	-	-	186,110,684	-	-	186,110,684	186,110,684
Rent	-	-	1,141,228	275,301,075	-	-	276,442,303	276,442,303
Provision for impairment losses on receivables	-	-	-	64,670,000	-	-	64,670,000	64,670,000
Taxes and licenses	73,840	831,986	55,286	43,939,230	-	-	44,900,342	44,900,342
Professional fees	877,195	4,660,810	14,945,660	27,623,761	-	-	48,107,426	48,107,426
Meetings and conferences	53,290	-	-	130,576,478	-	-	130,629,768	130,629,768
Advertising	-	-	-	22,360,371	-	-	22,360,371	22,360,371
Director's fee	-	15,000,000	-	-	-	-	15,000,000	15,000,000
Charitable contributions	-	-	-	9,119,962	-	-	9,119,962	9,119,962
Filing fees	896,388	-	-	-	-	-	896,388	896,388
Management fee	-	3,600,000	3,600,000	-	-	(7,200,000)	-	-
Other taxes	-	-	-	100,635,380	-	-	100,635,380	100,635,380
Miscellaneous	969,208	400,611	288,622	14,980,720	-	-	16,639,161	16,639,161
	7,966,838	30,236,322	25,405,224	17,615,762,040	-	(7,200,000)	17,672,170,424	17,672,170,424
<b>INCOME (LOSS) FROM OPERATIONS</b>	<b>(7,966,838)</b>	<b>(30,236,322)</b>	<b>(25,405,224)</b>	<b>27,786,240,963</b>	<b>-</b>	<b>7,200,000</b>	<b>27,729,832,579</b>	

Forward

Adjustment from the Retrospective Application of Pooling of Interest Method for Business Combination of Entities under Common Control

	Statement of Income of SGDPI	Consolidated Statement of Income of OTHI	Consolidated Statement of Income of P21	Statement of Income of NGCP	Share of Noncontrolling Interests in Net Income of OTHI, P21 and NGCP	Elimination of Investment in OTHI, P21 and NGCP	Consolidated Statement of Income of SGDPI
<b>OTHER CHARGES - Net</b>							
Interest expense	P -	P -	P -	(P6,640,204,984)	P -	P -	(P6,640,204,984)
Interest income	8,224	11,464,665	9,732,643	259,416,257	-	-	280,621,789
Foreign exchange gain (loss) - net	21,687	22,330	42,912	(423,642,688)	-	-	(423,555,759)
Bank and finance charges	(1,000)	(7,157)	(11,345)	(164,919,150)	-	-	(164,938,652)
Loss on disposal of property and equipment	-	-	-	(178,175)	-	-	(178,175)
Equity in net earnings in an associate	-	6,294,076,315	6,294,076,315	-	-	(12,588,152,630)	-
Management income	7,200,000	-	-	-	-	(7,200,000)	-
Miscellaneous income	-	-	-	163,542,159	-	-	163,542,159
	7,228,911	6,305,556,153	6,303,840,525	(6,805,986,581)	-	(12,595,352,630)	(6,784,713,622)
<b>CONSTRUCTION REVENUE AND COSTS</b>							
Construction revenue	-	-	-	29,453,220,324	-	-	29,453,220,324
Construction costs	-	-	-	(29,453,220,324)	-	-	(29,453,220,324)
	-	-	-	-	-	-	-
<b>NET (LOSS) INCOME BEFORE TAX</b>	(737,927)	6,275,319,831	6,278,435,301	20,980,254,382	-	(12,588,152,630)	20,945,118,957
<b>INCOME TAX EXPENSE</b>	151,693	6,230	56	-	-	-	157,979
<b>NET INCOME (LOSS)</b>	(P889,620)	P6,275,313,601	P6,278,435,245	P20,980,254,382	P -	(P12,588,152,630)	P20,944,960,978
<b>Attributable to:</b>							
Equity holders of the Parent Company	(P889,620)	P6,275,313,601	P6,278,435,245	P20,980,254,382	(P12,537,214,872)	(P12,588,152,630)	P8,407,746,106
Non-controlling interests	-	-	-	-	12,537,214,872	-	12,537,214,872
	(P889,620)	P6,275,313,601	P6,278,435,245	P20,980,254,382	P -	(P12,588,152,630)	P20,944,960,978

Forward

	Adjustment from the Retrospective Application of Pooling of Interest Method for Business Combination of Entities under Common Control							
	Statement of Income of SGDPI	Consolidated Statement of Income of OTHI	Consolidated Statement of Income of P21	Statement of Income of NGCP	Share of Noncontrolling Interests in Net Income of OTHI, P21 and NGCP	Elimination of Investment in OTHI, P21 and NGCP	Consolidated Statement of Income of SGDPI	
<b>NET INCOME (LOSS)</b>	(P889,620)	P6,275,313,601	P6,278,435,245	P20,980,254,382	P -	(P12,588,152,630)	P20,944,960,978	
<b>OTHER COMPREHENSIVE INCOME (LOSS)</b>								
<i>Item that will never be reclassified to profit or loss</i>								
Remeasurement losses on defined benefit liability	-	27,034,590	27,034,590	90,115,299	-	(54,069,180)	90,115,299	
<i>Item that can be reclassified to profit or loss</i>								
Hedging reserve	-	37,705,727	37,705,727	125,685,759	-	(75,411,454)	125,685,759	
<b>OTHER COMPREHENSIVE INCOME (LOSS)</b>	-	64,740,317	64,740,317	215,801,058	-	(129,480,634)	215,801,058	
<b>TOTAL COMPREHENSIVE INCOME (LOSS)</b>	(P889,620)	P6,340,053,918	P6,343,175,562	P21,196,055,440	P -	(P12,717,633,264)	P21,160,762,036	
<b>Attributable to:</b>								
Equity holders of the Parent Company	(P889,620)	P6,340,053,918	P6,343,175,562	P21,196,055,440	(P12,666,263,905)	(P12,717,633,264)	P8,494,498,131	
Non-controlling Interests	-	-	-	-	12,666,263,905	-	12,666,263,905	
	(P889,620)	P6,340,053,918	P6,343,175,562	P21,196,055,440	P -	(P12,717,633,264)	P21,160,762,036	

The restated amounts in the consolidated statement financial position as at December 31, 2017 as a result of the retrospective accounting of the business combination under common control were as follows:

	Adjustment from the Retrospective Application of Pooling of Interest Method for Business Combination of Entities under Common Control									
	Statement of Financial Position of SGDP	Consolidated Statement of Financial Position of OTHI	Consolidated Statement of Financial Position of P21	Statement of Financial Position of NGCP	Share Swap Transaction	Elimination of Investment in OTHI, P21 and NGCP	Reclassification	Consolidated Statement of Financial Position of SGDP		
<b>ASSETS</b>										
<b>Noncurrent Assets</b>										
Intangible asset - net	P -	P -	P -	P189,137,365,854	P -	P -	P -	P189,137,365,854		
Investment	-	18,301,044,418	18,278,443,843	-	82,008,000,000	(118,587,488,261)	-	10,471,611,069		
Goodwill	-	10,227,305,210	-	-	-	244,305,859	-	3,005,550,620		
Property and equipment - net	-	15,459,259	3,591,169	2,986,500,192	-	-	-	209,206,683		
Receivables - net of current portion	-	-	-	209,206,683	-	-	-	2,551,666		
Other noncurrent assets	-	1,854,306	697,360	-	-	-	-	-		
<b>Total Noncurrent Assets</b>	<b>-</b>	<b>28,545,663,193</b>	<b>18,282,732,372</b>	<b>192,333,072,729</b>	<b>82,008,000,000</b>	<b>(118,343,182,402)</b>	<b>-</b>	<b>202,826,285,892</b>		
<b>Current Assets</b>										
Cash and cash equivalents	6,577,581	1,380,024,049	1,428,212,492	15,806,162,966	-	-	-	18,620,977,088		
Receivables - net	-	-	110,208	8,802,417,973	-	-	-	8,802,528,181		
Prepaid expenses and other current assets	509,360	79,858,832	21,993,286	19,827,664,610	-	-	-	19,930,026,088		
Derivative asset	-	-	-	609,636,826	-	-	-	609,636,826		
<b>Total Current Assets</b>	<b>7,086,941</b>	<b>1,459,882,881</b>	<b>1,450,315,986</b>	<b>45,045,882,375</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>47,963,168,183</b>		
<b>Forward</b>	<b>P7,086,941</b>	<b>P30,005,546,074</b>	<b>P19,733,048,358</b>	<b>P237,378,955,104</b>	<b>P82,008,000,000</b>	<b>(P118,343,182,402)</b>	<b>P -</b>	<b>P250,789,454,075</b>		

Adjustment from the Retrospective Application of Pooling of Interest Method for Business Combination of Entities under Common Control									
	Statement of Financial Position of SGDP	Consolidated Statement of Financial Position of OTH	Consolidated Statement of Financial Position of P21	Statement of Financial Position of NGCP	Share Swap Transaction	Elimination of Investment in OTH, P21 and NGCP	Reclassification	Consolidated Statement of Financial Position of SGDP	
<b>LIABILITIES AND EQUITY</b>									
<b>Noncurrent Liabilities</b>									
Loans payable - net of current portion	P -	P -	P -	P79,383,012,893	P -	P -	P -	P79,383,012,893	
Retirement benefits liability	-	-	-	1,026,248,047	-	-	-	1,026,248,047	
Customers' and other deposits	-	-	-	302,070,756	-	-	-	302,070,756	
Concession fee payable	-	-	-	54,319,128,352	-	-	-	54,319,128,352	
Other noncurrent liabilities	489	503	-	2,516,873,847	-	-	-	2,516,874,839	
<b>Total Noncurrent Liabilities</b>	<b>489</b>	<b>503</b>	<b>-</b>	<b>137,547,333,895</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>137,547,334,887</b>	
<b>Current Liabilities</b>									
Trade and other current payables	399,397	145,542,910	940,949,663	22,134,611,393	-	-	(843,429,132)	22,378,074,231	
Current portion of loans payable	-	-	-	11,995,216,179	-	-	-	11,995,216,179	
Other current liabilities	-	1,233,000,395	1,322,972,187	5,143,156,300	-	-	(843,429,132)	8,542,558,014	
<b>Total Current Liabilities</b>	<b>399,397</b>	<b>1,378,543,305</b>	<b>2,263,921,850</b>	<b>39,272,983,872</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>42,915,848,424</b>	
<b>Total Liabilities</b>	<b>399,886</b>	<b>1,378,543,808</b>	<b>2,263,921,850</b>	<b>176,820,317,767</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>180,463,183,311</b>	
<b>Equity</b>									
Capital stock	49,466,000	10,000,000,000	1,300,000,000	2,000,000,000	4,100,400,000	(13,300,000,000)	-	4,149,866,000	
Additional paid-in capital	-	3,208,700,000	-	44,843,375,000	77,907,600,000	(48,052,075,000)	-	77,907,600,000	
Hedging reserve	-	-	-	(125,685,759)	-	75,160,084	-	(50,525,675)	
Remeasurements gains(losses) on defined benefit liability	-	-	-	(85,328,484)	-	51,026,434	-	(34,302,050)	
Share in other comprehensive income (loss) of an associate	-	(63,304,273)	(63,304,273)	-	-	126,608,546	-	-	
Equity adjustments from common control transactions	-	-	-	-	-	(73,359,171,000)	-	(73,359,171,000)	
Retained earnings	(42,778,945)	15,481,606,539	16,232,430,781	13,926,276,580	-	(15,757,314,896)	-	29,840,220,059	
<b>Equity Attributable to Equity Holders of the Parent Company</b>									
Non-controlling interest	6,687,055	28,627,002,266	17,469,126,508	60,558,637,337	82,008,000,000	(150,215,765,832)	-	38,453,687,334	
<b>Total Equity</b>	<b>6,687,055</b>	<b>28,627,002,266</b>	<b>17,469,126,508</b>	<b>60,558,637,337</b>	<b>82,008,000,000</b>	<b>(118,343,182,402)</b>	<b>-</b>	<b>70,326,270,764</b>	
	P7,086,941	P30,005,546,074	P19,733,048,358	P237,378,955,104	P82,008,000,000	(P118,343,182,402)	P -	P250,789,454,075	

The restated amounts in the consolidated statement of income and consolidated statement of comprehensive income for the year ended December 31, 2017 as a result of the retrospective accounting of the business combination under common control were as follows:

	Adjustment from the Retrospective Application of Pooling of Interest Method for Business Combination of Entities under Common Control							
	Statement of Income of SGDPI	Consolidated Statement of Income of OTHI	Consolidated Statement of Income of P21	Statement of Income of NGCP	Share of Noncontrolling Interests in Net Income of OTHI, P21 and NGCP	Elimination of Investment in OTHI, P21 and NGCP	Consolidated Statement of Income of SGDPI	
<b>REVENUES - Net</b>	P -	P -	P -	P45,409,957,333	P -	P -	P45,409,957,333	
<b>EXPENSES</b>								
Amortization of intangible asset	-	-	-	7,507,024,453	-	-	7,507,024,453	
Salaries, wages and employee benefits	4,614,079	721,304	1,736,902	4,079,773,368	-	-	4,086,845,653	
Repairs and maintenance	5,500	70,798	237,635	826,737,695	-	-	827,051,628	
Depreciation	-	2,632,323	1,436,346	541,823,932	-	-	545,892,601	
Supervision and regulatory fees	-	-	-	468,433,750	-	-	468,433,750	
Insurance	1,122	-	160,135	423,844,190	-	-	424,005,447	
Security and janitorial	-	-	-	837,048,288	-	-	837,048,288	
Communication, light and water	-	33,943	467,607	340,708,087	-	-	341,209,637	
Public relation and corporate social responsibility	-	-	-	339,991,074	-	-	339,991,074	
Outside services	-	-	-	138,175,204	-	-	138,175,204	
Transportation and travel	1,121	36,744	246,250	351,345,761	-	-	351,629,876	
Supplies and tools	21,200	233,306	409,304	200,768,764	-	-	201,432,574	
Representation and entertainment	-	76,860	377,465	234,774,810	-	-	235,229,135	
Fuel and oil	-	-	-	135,017,410	-	-	135,017,410	
Rent	-	-	-	188,279,041	-	-	189,405,522	
Provision for impairment losses on receivables	-	-	-	64,670,000	-	-	64,670,000	
Taxes and licenses	72,423	50,887	42,456	36,127,237	-	-	36,293,003	
Professional fees	843,017	3,739,765	17,526,570	34,689,304	-	-	56,798,656	
Meetings and conferences	61,997	-	-	101,741,792	-	-	101,803,789	
Advertising	-	-	-	56,872,093	-	-	56,872,093	
Director's fee	-	15,000,000	-	8,967,177	-	-	15,000,000	
Charitable contributions	-	-	-	-	-	-	8,967,177	
Filing fees	941,969	-	-	6,364,462	-	-	7,539,792	
Miscellaneous	1,048,171	-	227,159	887,674,702	-	-	887,674,702	
Other taxes	-	-	-	-	-	-	-	
Management fees	-	3,600,000	3,600,000	-	-	(7,200,000)	-	
	7,610,599	26,195,930	27,594,310	17,810,852,594	-	(7,200,000)	17,865,053,433	
<b>INCOME (LOSS) FROM OPERATIONS</b>	(7,610,599)	(26,195,930)	(27,594,310)	27,599,104,739	-	7,200,000	27,544,903,900	

Forward

	Adjustment from the Retrospective Application of Pooling of Interest Method for Business Combination of Entities under Common Control									
	Statement of Income of SGDP1	Consolidated Statement of Income of OTHI	Consolidated Statement of Income of P21	Statement of Income of NGCP	Noncontrolling Interests in Net Income of OTHI, P21 and NGCP	Elimination of Investment in OTHI, P21 and NGCP	Consolidated Statement of Income of SGDP1			
OTHER CHARGES - Net										
Management Income	P7,200,000	P -	P -	P -	P -	(P7,200,000)	P -			
Equity in net earnings of associate	-	6,180,899,658	6,180,899,658	(6,530,684,553)	-	(12,361,799,316)	(6,530,684,553)			
Interest expense	8,526	-	-	199,056,602	-	-	210,268,030			
Interest income	1,629	5,416,087	5,786,815	(435,390,868)	-	-	(435,384,765)			
Foreign exchange gain (loss) - net	(684)	1,677	2,797	(200,430,905)	-	-	(200,449,580)			
Bank and finance charges		(8,114)	(9,877)	(34,978)	-	-				
Loss on disposal of property and equipment	-	-	-	(28,621,177)	-	-	(34,978)			
Miscellaneous income	245,993	(375,835)	-	(28,621,177)	-	-	(28,751,019)			
	7,455,464	6,185,933,473	6,186,679,393	(6,996,105,879)	-	(12,368,999,316)	(6,985,036,865)			
CONSTRUCTION REVENUE AND COSTS										
Construction revenue	-	-	-	10,304,450,913	-	-	10,304,450,913			
Construction costs	-	-	-	(10,304,450,913)	-	-	(10,304,450,913)			
	-	-	-	-	-	-	-			
NET INCOME BEFORE TAX	(155,135)	6,159,737,543	6,159,085,083	20,602,998,860	-	(12,361,799,316)	20,559,867,035			
INCOME TAX EXPENSE (BENEFIT)	136,122	(5,027)	787	-	-	-	131,882			
NET INCOME (LOSS)	(P291,257)	P6,159,742,570	P6,159,084,296	P20,602,998,860	P -	(P12,361,799,316)	P20,559,735,153			
Attributable to:										
Equity holders of the Parent Company	(P291,257)	P6,159,742,570	P6,159,084,296	P20,602,998,860	(P12,308,788,410)	(P12,361,799,316)	P8,250,946,743			
Non-controlling interests	-	-	-	-	12,308,788,410	-	12,308,788,410			
	(P291,257)	P6,159,742,570	P6,159,084,296	P20,602,998,860	P -	(P12,361,799,316)	P20,559,735,153			

Forward

	Adjustment from the Retrospective Application of Pooling of Interest Method for Business Combination of Entities under Common Control						
	Statement of Income of SGDPI	Consolidated Statement of Income of OTHI	Consolidated Statement of Income of P21	Statement of Income of NGCP	Share of Noncontrolling Interests in Net Income of OTHI, P21 and NGCP	Elimination of Investment in OTHI, P21 and NGCP	Consolidated Statement of Income of SGDPI
NET INCOME	(P291,257)	P6,159,742,570	P6,159,084,296	P20,602,998,860	P -	(P12,361,799,316)	P20,559,735,153
OTHER COMPREHENSIVE INCOME (LOSS)							
<i>Item that will never be reclassified to profit or loss</i>							
Remeasurement losses on defined benefit liability	-	14,080,293	14,080,293	46,934,308	-	(28,160,586)	46,934,308
<i>Item that can be reclassified to profit or loss</i>							
Share in other comprehensive income (loss) of an associate - hedging	-	111,525,925	111,525,925	-	-	(223,051,850)	-
Hedging reserve	-	-	-	371,753,084	-	-	371,753,084
OTHER COMPREHENSIVE INCOME (LOSS)	-	125,606,218	125,606,218	418,687,392	-	(251,212,436)	418,687,392
TOTAL COMPREHENSIVE INCOME	(P291,257)	P6,285,348,788	P6,284,690,514	P21,021,686,252	P -	(P12,613,011,752)	P20,978,422,545
Attributable to:							
Equity holders of the Parent Company	(P291,257)	P6,285,348,788	P6,284,690,514	P21,021,686,252	(P12,559,163,470)	(P12,613,011,752)	P8,419,259,075
Non-controlling interests	-	-	-	-	12,559,163,470	-	12,559,163,470
	(P291,257)	P6,285,348,788	P6,284,690,514	P21,021,686,252	P -	(P12,613,011,752)	P20,978,422,545

The restated amounts in the consolidated statements of cash flows for the years ended December 31, 2018 and 2017 as a result of the retrospective accounting of the business combination under common control were as follows:

	2018						
	Adjustment from the Retrospective Application of Pooling of Interest Method for Business Combination of Entities under Common Control						
	Statement of Cash Flow of SGDP	Consolidated Statement of Cash Flow of OTHI	Consolidated Statement of Cash Flow of P21	Statement of Cash Flow of NGCP	Elimination of Investment in OTHI, P21 and NGCP	Consolidated Statement of Cash Flow of SGDP	
Net cash flows provided by operating activities	(P321,993)	(P1,150,100,801)	(P3,965,596)	P36,767,322,714	P -	P35,612,934,324	
Net cash flows used in investing activities	-	5,400,507,995	5,400,147,415	(33,866,452,417)	(10,800,000,000)	(33,865,797,007)	
Net cash flows used in financing activities	-	(5,405,356,490)	(6,702,971,400)	(5,364,780,002)	10,800,000,000	(6,673,107,892)	
Effect of exchange rate changes in cash and cash equivalents	21,687	22,330	42,912	(68,799,958)	-	(68,713,029)	
Net increase (decrease) in cash and cash equivalents	(300,306)	(1,154,926,966)	(1,306,746,669)	(2,532,709,663)	-	(4,994,683,604)	
Cash and cash equivalents at beginning of year	6,577,581	1,380,024,049	1,428,212,492	15,806,162,966	-	18,620,977,088	
Cash and cash equivalents at end of year	P6,277,275	P225,097,083	P121,465,823	P13,273,453,303	P -	P13,626,293,484	

	2017						
	Adjustment from the Retrospective Application of Pooling of Interest Method for Business Combination of Entities Under Common Control						
	Statement of Cash Flow of SGDP	Consolidated Statement of Cash Flow of OTHI	Consolidated Statement of Cash Flow of P21	Statement of Cash Flow of NGCP	Elimination of Investment in OTHI, P21 and NGCP	Consolidated Statement of Cash Flow of SGDP	
Net cash flows provided by operating activities	P87,714	P1,409,420,490	(P26,875,234)	P35,589,720,587	P -	P36,972,353,557	
Net cash flows used in investing activities	78,750	5,690,464,512	7,090,015,207	(22,820,772,231)	(11,400,000,000)	(21,440,213,762)	
Net cash flows used in financing activities	-	(5,738,000,000)	(5,744,875,250)	(8,824,990,211)	11,400,000,000	(8,907,865,461)	
Effect of exchange rate changes in cash and cash equivalents	1,629	1,677	2,797	(704,759)	-	(698,656)	
Net increase (decrease) in cash and cash equivalents	168,093	1,361,886,679	1,318,267,520	3,943,253,386	-	6,623,575,678	
Cash and cash equivalents at beginning of year	6,409,488	18,137,370	109,944,972	11,862,909,580	-	11,997,401,410	
Cash and cash equivalents at end of year	P6,577,581	P1,380,024,049	P1,428,212,492	P15,806,162,966	P -	P18,620,977,088	

Adjustments from the retrospective applicable of business combination under common control follows:

a. Share Swap Transaction

This represents the issuance of 2,050,200,000 new common shares with a par value of P1.00 to each of the two major shareholders of OTHI and P21 as consideration for the acquisition by the SGDPI under a Share Swap Transaction of the major shareholder's investment in 86,430,000 with par value of P100 shares of OTHI and 871,000,000 with par value of P1 of P21, respectively.

The details of the share swap transaction follow:

	Percentage of Ownership	Amount
Transfer value as approved by SEC (Note 1):		
OTHI	67%	P41,004,000,000
P21	67%	41,004,000,000
		82,008,000,000
Par value of shares issued by SGDPI		4,100,400,000
Additional paid-in capital of SGDPI		P77,907,600,000

b. Elimination of investments in OTHI and P21 follow:

2018	OTHI	P21	NGCP	Total
Equity attributable to equity holders of the Parent Company:				
Capital stock	P12,900,000,000	P1,300,000,000	P2,000,000,000	P16,200,000,000
Additional paid-in-capital	3,208,700,000	-	44,843,375,000	48,052,075,000
Equity adjustments from common control transactions	33,226,171,000	40,133,000,000	-	73,359,171,000
Share in other comprehensive income (loss) of an associate	1,436,044	1,436,044	-	2,872,088
Hedging reserve	-	-	-	-
Remeasurements gains(losses) on defined benefit liability	-	-	2,862,515	2,862,515
Retained earnings	(8,666,682,942)	(4,493,054,310)	22,390,063,160	9,230,325,908
Non-controlling interests	1,766,245,189	5,517,088,132	(33,869,824,166)	(26,586,490,845)
Goodwill	133,453,217	110,852,642	-	244,305,859
Investment in associate	(1,565,322,508)	(1,565,322,508)	(35,366,476,509)	(38,497,121,525)
	41,004,000,000	41,004,000,000	-	82,008,000,000
Transfer value	41,004,000,000	41,004,000,000	-	82,008,000,000
	P -	P -	P -	P -
2017	OTHI	P21	NGCP	Total
Equity attributable to equity holders of the Parent Company:				
Capital stock	P10,000,000,000	P1,300,000,000	P2,000,000,000	P13,300,000,000
Additional paid-in-capital	3,208,700,000	-	44,843,375,000	48,052,075,000
Equity adjustments from common control transactions	33,226,171,000	40,133,000,000	-	73,359,171,000
Share in other comprehensive income (loss) of an associate	(63,304,273)	(63,304,273)	-	(126,608,546)
Hedging reserve	-	-	(75,160,084)	(75,160,084)
Remeasurements gains(losses) on defined benefit liability	-	-	(51,026,434)	(51,026,434)
Retained earnings	(1,283,399,071)	(3,157,071)	17,043,871,038	15,757,314,896
Non-controlling interests	(3,611,114,997)	133,114,578	(28,394,583,011)	(31,872,583,430)
Goodwill	133,453,217	110,852,642	-	244,305,859
Investment in associate	(606,505,876)	(606,505,876)	(35,366,476,509)	(36,579,488,261)
	41,004,000,000	41,004,000,000	-	82,008,000,000
Transfer value	41,004,000,000	41,004,000,000	-	82,008,000,000
	P -	P -	P -	P -

*Equity Adjustments from Common Control Transactions*

This account represents the excess of transfer value over the net assets of OTHI and P21 attributable to the ownership of the major stockholder of OTHI and P21. Details are as follows:

	OTHI	P21	Total
Transfer value	P41,004,000,000	P41,004,000,000	P82,008,000,000
Net assets acquired	7,777,829,000	871,000,000	8,648,829,000
Equity adjustments from common control transactions	P33,226,171,000	P40,133,000,000	P73,359,171,000

- c. Certain accounts in the consolidated statements of financial position were reclassified for consistency of financial statements presentation. The reclassifications had no effect on the reported performance for any period presented.

## 7. Non-controlling Interests

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

	December 31, 2018				December 31, 2017				
	Consolidated OTHI	Consolidated P21	Consolidated NGCP	Consolidated OTHI	Consolidated P21	Consolidated NGCP	Consolidated OTHI	Consolidated P21	Consolidated NGCP
Percentage of non-controlling interests	33%	33%	59.80%	33%	33%	59.80%	33%	33%	59.80%
Carrying amount of non-controlling interests	(P1,766,245,189)	(P5,517,088,132)	P33,869,824,166	P3,611,114,997	(P133,114,578)	P28,394,583,011	(P133,114,578)	(P6,011,069)	P12,320,593,318
Net income attributable to non-controlling interests	(P5,003,696)	(P3,973,553)	P12,546,192,120	(P5,793,839)	(P6,011,069)	P12,320,593,318	(P5,793,839)	(P6,011,069)	P12,320,593,318
Other comprehensive income attributable to non-controlling interests	P -	P -	P90,115,299	P -	P -	P46,934,308	P -	P -	P46,934,308
Dividends paid to non-controlling interests	(P5,335,000,000)	(P5,380,000,000)	(P7,200,000,000)	(P5,608,000,000)	(P5,675,000,000)	(P7,600,000,000)	(P5,608,000,000)	(P5,675,000,000)	(P7,600,000,000)

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

	December 31, 2018				December 31, 2017				
	Consolidated OTHI	Consolidated P21	Consolidated NGCP	Consolidated OTHI	Consolidated P21	Consolidated NGCP	Consolidated OTHI	Consolidated P21	Consolidated NGCP
Current assets	P1,440,637,869	P107,589,198	P49,001,224,089	P1,459,882,881	P1,450,315,986	P45,045,882,375	P1,459,882,881	P1,450,315,986	P45,045,882,375
Noncurrent assets	29,499,733,175	3,150,750,000	214,479,303,338	28,545,663,193	18,282,732,372	192,333,072,729	28,545,663,193	18,282,732,372	192,333,072,729
Current liabilities	(1,345,664,651)	(935,874,686)	(47,210,358,005)	(1,378,543,305)	(2,263,921,850)	(39,272,963,872)	(1,345,664,651)	(935,874,686)	(47,210,358,005)
Noncurrent liabilities	(6,699)	-	(152,515,476,645)	(503)	-	(137,547,333,895)	(6,699)	-	(137,547,333,895)
Net assets	P29,594,699,694	P2,322,464,512	P63,754,692,777	P28,627,002,266	P17,469,126,508	P60,558,637,337	P28,627,002,266	P17,469,126,508	P60,558,637,337
Revenues/income	P6,305,556,153	P6,303,840,525	(P6,805,986,581)	P6,185,933,473	P6,186,679,393	(P6,996,105,879)	P6,305,556,153	P6,303,840,525	(P6,805,986,581)
Net income	P6,275,313,601	P6,278,435,245	P20,980,254,382	P6,159,742,570	P6,159,084,296	P20,602,998,860	P6,275,313,601	P6,278,435,245	P20,980,254,382
Other comprehensive income (loss)	64,740,317	64,740,317	P21,580,105	125,606,218	125,606,218	418,687,392	64,740,317	64,740,317	P21,580,105
Total comprehensive income	P6,340,053,918	P6,343,175,562	P21,196,055,440	P6,285,348,788	P6,284,690,514	P21,021,686,252	P6,340,053,918	P6,343,175,562	P21,196,055,440
Cash flows provided by (used in) operating activities	(P1,150,100,801)	(P3,965,596)	P36,767,322,714	P1,409,420,490	(P26,875,234)	P35,589,720,587	(P1,150,100,801)	(P3,965,596)	P36,767,322,714
Cash flows provided by (used in) investing activities	5,400,507,995	5,400,147,415	(33,866,452,417)	5,690,464,512	7,090,015,207	(22,820,772,231)	5,400,507,995	5,400,147,415	(33,866,452,417)
Cash flows provided by (used in) financing activities	(5,405,356,490)	(6,702,971,400)	(5,384,780,002)	(5,738,000,000)	(5,744,875,290)	(8,824,990,211)	(5,405,356,490)	(6,702,971,400)	(5,384,780,002)
Effect of exchange rate changes on cash and cash equivalents	22,330	42,912	(68,799,958)	1,677	2,797	(704,759)	22,330	42,912	(68,799,958)
Net increase (decrease) in cash and cash equivalents	(P1,154,926,666)	(P1,306,746,669)	(P2,532,709,663)	P1,361,886,679	P1,318,267,520	P3,943,253,386	(P1,154,926,666)	(P1,306,746,669)	(P2,532,709,663)

## 8. Intangible Asset - net

This account at December 31 consists of:

	<i>Note</i>	<b>2018</b>	2017
Concession fee	5	<b>P160,296,289,265</b>	P160,296,289,265
Cost of completed projects		<b>63,529,531,353</b>	53,448,102,740
Computer software		<b>383,223,886</b>	383,223,886
		<b>224,209,044,504</b>	214,127,615,891
Less accumulated amortization		<b>(72,091,508,056)</b>	(64,188,463,263)
		<b>152,117,536,448</b>	149,939,152,628
Contract assets		<b>58,570,004,937</b>	39,198,213,226
		<b>P210,687,541,385</b>	P189,137,365,854

### 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. This cost is being amortized over the remaining concession period.

Amortization expense recognized in profit or loss amounted to P6.38 billion in 2018 and 2017.

### 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. These assets are being amortized over the concession period.

Amortization expense recognized in profit or loss amounted to P1.51 billion and P1.07 billion in 2018 and 2017, 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 amounting to P383.22 million as at December 31, 2018 and 2017. These costs comprise the acquisition costs of the software and license, project administration and maintenance, and consultancy services for the Enterprise Resource Planning (ERP) Project.

Amortization expense recognized in profit or loss amounted to P19.04 million and P58.39 million in 2018 and 2017 respectively.

The movements and balances of the accounts are as follows:

	Per Concession Right				Total	Computer Software	Total
	Concession Fee	Completed Projects	Contract Assets	Total			
<b>Cost</b>							
January 1, 2017	P160,296,289,265	P37,622,558,844	P44,666,875,053	P242,585,723,162	P383,223,886	P242,968,947,048	
Additions/adjustments	-	15,825,543,896	(5,468,661,827)	10,356,882,069	-	10,356,882,069	
December 31, 2017	160,296,289,265	53,448,102,740	39,198,213,226	252,942,605,231	383,223,886	253,325,829,117	
Additions/adjustments	-	10,081,428,613	19,371,791,711	29,453,220,324	-	29,453,220,324	
<b>December 31, 2018</b>	<b>160,296,289,265</b>	<b>63,529,531,353</b>	<b>58,570,004,937</b>	<b>282,395,825,555</b>	<b>383,223,886</b>	<b>282,779,049,441</b>	
<b>Accumulated Amortization</b>							
January 1, 2017	51,909,826,254	4,541,799,337	-	56,451,625,591	229,147,317	56,680,772,908	
Additions/adjustments	6,375,674,293	1,073,622,252	-	7,449,296,545	58,393,810	7,507,690,355	
December 31, 2017	58,285,500,547	5,615,421,589	-	63,900,922,136	287,541,127	64,188,463,263	
Additions/adjustments	6,375,674,293	1,508,332,518	-	7,884,006,811	19,037,982	7,903,044,793	
<b>December 31, 2018</b>	<b>64,661,174,840</b>	<b>7,123,754,107</b>	<b>-</b>	<b>71,784,928,947</b>	<b>306,579,109</b>	<b>72,091,508,056</b>	
<b>Net Carrying Amount</b>							
December 31, 2017	P102,010,788,718	P47,832,681,151	P39,198,213,226	P189,041,683,095	P95,682,759	P189,137,365,854	
<b>December 31, 2018</b>	<b>P95,635,114,425</b>	<b>P56,405,777,246</b>	<b>P58,570,004,937</b>	<b>P210,610,896,608</b>	<b>P76,644,777</b>	<b>P210,687,541,385</b>	

## 9. Goodwill

Goodwill amounting to P10.47 billion as at December 31, 2018 and 2017 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 are 8.1% and 6.9% in 2018 and 2017, respectively and are based on Group's expectations of market developments and past historical performance. The discount rates applied to after tax cash flow projections are 15.04% to 12.55% in 2018 and 2017, respectively. The discount rate also imputes the risk of the cash-generating units compared to the respective risk of the overall market and equity risk premium. The recoverable amount of goodwill has been categorized as Level 3 in the fair value hierarchy based on the inputs used in the valuation technique (Note 3).

No impairment loss was recognized for goodwill in 2017 and 2018.

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 and balances of this account are as follows:

	Structures and Improvements	Transportation Equipment	Machinery and Equipment	Office Furniture and Fixtures	Total
<b>Cost</b>					
January 1, 2017	P135,918,149	P2,043,211,094	P3,207,109,961	P2,740,116,834	P8,126,356,038
Additions during the year	14,356,381	26,347,771	209,096,769	367,983,447	617,784,368
December 31, 2017	150,274,530	2,069,558,865	3,416,206,730	3,108,100,281	8,744,140,406
Additions during the year	3,067,640	194,231,109	535,193,129	494,351,401	1,226,843,279
<b>December 31, 2018</b>	<b>153,342,170</b>	<b>2,263,789,974</b>	<b>3,951,399,859</b>	<b>3,602,451,682</b>	<b>9,970,983,685</b>
<b>Accumulated Depreciation</b>					
January 1, 2017	12,559,427	1,185,983,090	2,302,976,715	1,691,177,953	5,192,697,185
Depreciation during the year	11,415,786	138,980,685	158,401,808	237,094,322	545,892,601
December 31, 2017	23,975,213	1,324,963,775	2,461,378,523	1,928,272,275	5,738,589,786
Depreciation during the year	2,961,099	137,697,485	152,176,768	210,373,815	503,209,167
<b>December 31, 2018</b>	<b>26,936,312</b>	<b>1,462,661,260</b>	<b>2,613,555,291</b>	<b>2,138,646,090</b>	<b>6,241,798,953</b>
<b>Net Carrying Amount</b>					
December 31, 2017	P126,299,317	P744,595,090	P954,828,207	P1,179,828,006	P3,005,550,620
<b>December 31, 2018</b>	<b>P126,405,858</b>	<b>P801,128,714</b>	<b>P1,337,844,568</b>	<b>P1,463,805,592</b>	<b>P3,729,184,732</b>

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## 11. Cash and Cash Equivalents

This account at December 31 consists of:

	<i>Note</i>	<b>2018</b>	2017
Cash on hand		<b>P7,878,461</b>	P7,928,336
Cash in banks		<b>3,687,258,825</b>	3,668,243,890
Short-term placements		<b>9,931,156,198</b>	14,944,804,862
	<b>23</b>	<b>P13,626,293,484</b>	P18,620,977,088

Cash in banks generally earns 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 2.25% to 7.44% and 1.00% to 4.05% in 2018 and 2017, respectively. Interest income earned amounted to P259.42 million and P199.06 million in 2018 and 2017, respectively. Accrued interest receivable amounted to P41.71 million and P20.81 million as at December 31, 2018 and 2017, respectively (see Note 12).

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## 12. Receivables

This account at December 31 consists of:

### A. Current Receivables

	<i>Note</i>	<b>2018</b>	2017
Power receivables - current portion	23	<b>P3,942,923,835</b>	P4,065,445,461
Due from customers	12, 23	<b>3,221,927,063</b>	2,902,532,705
Accrued transmission revenue	19	<b>1,616,108,443</b>	1,652,254,186
Output VAT receivable		<b>1,192,182,240</b>	-
Due from officers and employees and other receivables	23	<b>240,213,845</b>	122,130,056
Interest receivable	5, 11, 23	<b>41,709,598</b>	20,813,937
Restructured power receivables - current portion	23	<b>22,569,775</b>	39,351,836
		<b>P10,277,634,799</b>	P8,802,528,181

### B. Noncurrent Receivables

	<i>Note</i>	<b>2018</b>	2017
Restructured power receivables - net of current portion		<b>P1,467,243,650</b>	P1,481,000,579
Power receivables - net of current portion		<b>282,341,761</b>	411,654,763
		<b>1,749,585,411</b>	1,892,655,342
Less allowance for impairment losses		<b>1,748,118,659</b>	1,683,448,659
	<b>23</b>	<b>P1,466,752</b>	P209,206,683

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

	2018	2017
Balance at beginning of year	<b>P1,683,448,659</b>	P1,618,778,659
Provision for impairment losses on receivables during the year	<b>64,670,000</b>	64,670,000
Balance at end of year	<b>P1,748,118,659</b>	P1,683,448,659

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

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.

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

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 in the succeeding month upon billing and recognition of power receivables.

### 13. Prepaid Expenses and Other Current Assets

This account at December 31 consists of:

	<i>Note</i>	2018	2017
Advance payment to suppliers and contractors		<b>P13,942,351,775</b>	P7,188,510,356
Materials, supplies and spare parts in transit		<b>5,323,466,927</b>	2,918,762,037
Materials, supplies and spare parts - net		<b>2,844,711,714</b>	8,609,351,425
Court and other deposits		<b>2,123,503,490</b>	914,805,600
Other investments		<b>1,210,500,000</b>	92,000,000
Input VAT		<b>686,497,996</b>	10,309,132
Other deposits		<b>340,745,118</b>	28,087,474
Prepaid expenses		<b>166,376,007</b>	117,326,330
Other supplies		<b>25,193,624</b>	23,269,549
Guaranty deposit		<b>9,157,444</b>	27,021,038
Calamity loan fund		<b>397,182</b>	583,147
		<b>P26,672,901,277</b>	P19,930,026,088

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 P8.51 billion and P11.90 billion as at December 31, 2018 and 2017, respectively, which resulted to an accumulated write-down amount of P346.27 million as at December 31, 2018 and 2017.

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 inventory items that were already purchased by the Group but not yet received.

Court and other related 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 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 consolidated statements of comprehensive income amounted to P231.57 million and to P463.47 million in 2018 and 2017, respectively.

#### 14. Loans Payable

##### Outstanding Balance and Maturities

Outstanding balance of loans payable at December 31 is presented below:

	<i>Note</i>	<b>2018</b>	2017
<b>Loan Facilities (net of debt issuance costs)</b>			
Fixed-Rate Peso Corporate Notes		<b>P64,773,530,027</b>	P71,311,371,525
US Dollar Denominated Term Loans		-	14,921,171,457
Peso Denominated Term Loan		<b>38,504,596,458</b>	5,145,686,090
	23	<b>103,278,126,485</b>	91,378,229,072
Less current portion		<b>8,927,558,477</b>	11,995,216,179
		<b>P94,350,568,008</b>	P79,383,012,893

Movements in debt issuance costs are as follows:

	<b>2018</b>	2017
Balance at beginning of year	<b>P676,719,386</b>	P788,957,078
Debt issuance costs during the year	<b>208,258,065</b>	80,645,160
Amortization during the year	<b>(138,103,936)</b>	(192,882,852)
Balance at end of year	<b>P746,873,515</b>	P676,719,386

### Repayment Schedule

As at December 31, 2018, the annual maturities of loans payable are as follows:

Year	Gross Amount	Debt Issuance Costs	Net
2019	P9,090,000,000	P162,441,523	P8,927,558,477
2020	10,285,000,000	164,375,134	10,120,624,866
2021	11,085,000,000	136,137,630	10,948,862,370
2022	12,105,000,000	110,968,885	11,994,031,115
2023	17,350,000,000	73,576,538	17,276,423,462
More than 5 years	44,110,000,000	99,373,805	44,010,626,195
	<b>P104,025,000,000</b>	<b>P746,873,515</b>	<b>P103,278,126,485</b>

As at December 31, 2017, the annual maturities of loans payable are as follows:

Year	Gross Amount	Debt Issuance Costs	Net
2018	P12,179,948,458	P184,732,279	P11,995,216,179
2019	7,775,000,000	166,665,791	7,608,334,209
2020	8,575,000,000	131,978,079	8,443,021,921
2021	9,375,000,000	91,930,447	9,283,069,553
2022	9,750,000,000	60,935,224	9,689,064,776
More than 5 years	44,400,000,000	40,477,566	44,359,522,434
	<b>P92,054,948,458</b>	<b>P676,719,386</b>	<b>P91,378,229,072</b>

### Details and Description

#### *Financing of Capital Expenditures*

- a. On December 18, 2018, the Group, through NGCP, entered into a P1.35 billion and P2.00 billion Peso Bilateral 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. Drawdown of P2.00 billion was made on January 25, 2019.
- b. On December 18, 2018, the Group, through NGCP, entered into a P2.00 billion Peso Bilateral 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. Drawdown of the total loan was made on January 25, 2019.
- c. On October 16, 2018, the Group, through NGCP, entered into a P5.00 billion, P3.80 billion, P7.00 billion and P5.00 billion Peso Bilateral Term Loans on October 16, 2018, September 26, 2018, July 10, 2018 and May 30, 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.
- d. On September 28, 2017, the Group, through NGCP, entered into a P5 billion Peso Bilateral 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 in 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.

- e. On May 27, 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.
- f. 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.
- g. In 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 February 10, 2015, respectively, to cover the funding of the Group's capital expenditures.
- h. In 2012, the Group, through NGCP, issued peso denominated long-term unsecured promissory notes to various banks amounting to P5.00 billion. The drawdown was made on November 29, 2012 and was fully settled on November 29, 2017.

Following are the terms of the loan facilities:

- a. Five-year Peso Bilateral unsecured Term Loan for P2.00 billion, P1.35 billion and P2.00 billion. The applicable interest rate is fixed for the period beginning on the Drawdown Date until the Maturity Date.
- b. Ten-year Peso Bilateral unsecured Term Loan for P5.00 billion, P3.80 billion, P7.00 billion and P5.00 billion. 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 until Maturity Date.
- c. Ten-year Peso Bilateral unsecured Term Loan for P5.00 billion and P10 billion. 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 until Maturity Date.
- d. Ten-year, unsecured Corporate Notes Facility with a consortium of five (5) local banks for P17.00 billion. It bears an interest based on PDST-R2 plus spread and the principal payable beginning on the 12<sup>th</sup> month from initial issue date and the remaining for eighteen (18) semi-annual installments as a percentage of principal amount of borrowing.

- e. Ten-year, unsecured Corporate Notes Facility with a consortium of five (5) 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 PDST-R2 plus spread and the principal payable in twenty (20) semi-annual installments.
- f. 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 PDST-F plus spread and the principal payable in twenty (20) semi-annual installments.
- g. Long-term unsecured promissory notes to various banks amounting to P5.00 billion with fixed interest rate of 5.40% per annum and with maturities of five (5) years. As provided under Section 2 of the Note Facility Agreement, item no. 2.4; *Repayment*, every anniversary date of these notes, the Group shall repay 0.25% of the principal amount of borrowing amounting to P12.50 million. The remaining balance of 99% shall be paid on maturity date (5<sup>th</sup> year).

Interest from these loans amounting to P2.10 billion and P1.35 billion in 2018 and 2017, respectively, were capitalized and recognized in Asset under Construction under "Intangible asset" in the consolidated statements of financial position. Interest expense recognized in profit or loss amounted to P1.70 billion and P1.47 billion for the years ended December 31, 2018 and 2017, 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. To hedge both the foreign currency and interest rate risks exposures on US dollar denominated term loan facilities, the Group entered into cross-currency swap transactions.

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.

b. US Dollar Denominated Term Loans

Five-year, unsecured Term Loan Facility with a consortium of one (1) local and five (5) foreign banks for US\$515.46 million which bears an interest based on LIBOR plus 160 bps and principal payable in ten (10) semi-annual installments. The loan was fully settled on July 12, 2018.

Interest expense from these loans recognized in profit or loss amounted to P1.39 billion and P1.51 billion as at December 31, 2018 and 2017, respectively.

These loan agreements contain, among others, covenants relating to the Concession Agreement and maintenance of Debt-to-Equity (DE) ratio and Debt-to-Service Coverage Ratio (DSCR), including requirements before payment of dividends. As at December 31, 2018 and 2017, DE ratio and DSCR should not be less than 1.15 and should not be more than 4.1, respectively. As at December 31, 2018 and 2017, 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:

	<b>Loans Payable</b>
<b>Balance at January 1, 2018</b>	<b>P91,378,229,072</b>
Changes from financing cash flows:	
Proceeds from loans	<b>24,150,000,000</b>
Payment of loans:	
Payment of principal	<b>(11,514,780,002)</b>
Payment covered by Cross Currency Interest Rate Swap (CCIRS)	<b>(735,322,585)</b>
Total liability-related changes	<b>11,899,897,413</b>
<b>Balance at December 31, 2018</b>	<b>P103,278,126,485</b>

	<b>Loans Payable</b>
Balance at January 1, 2017	P82,031,558,396
Changes from financing cash flows:	
Proceeds from loans	23,000,000,000
Payment of loans:	
Payment of principal	(12,824,990,211)
Payment covered by Cross Currency Interest Rate Swap (CCIRS)	(828,339,113)
Total liability-related changes	9,346,670,676
Balance at December 31, 2017	P91,378,229,072

## 15. Trade and Other Current Payables

This account at December 31 consists of:

	<i>Note</i>	<b>2018</b>	2017
Accrued expenses:			
Project related		<b>P9,579,829,821</b>	P4,514,208,562
Salaries and employee benefits		<b>1,349,066,755</b>	1,245,150,906
Substation utilities and other expenses		<b>375,674,353</b>	377,047,746
Taxes/regulatory fees		<b>122,659,690</b>	133,907,925
Others		<b>350,018,910</b>	224,460,512
	23	<b>11,777,249,529</b>	6,494,775,651
Accounts payable	23	<b>10,621,475,670</b>	8,639,459,066
Due to government agencies and others		<b>6,322,603,115</b>	3,986,889,299
Interest payable	5, 14, 23	<b>3,379,794,598</b>	3,009,173,172
Franchise tax payable to Bureau of Internal Revenue (BIR)	18, 23	<b>236,895,746</b>	247,777,043
		<b>P32,338,018,658</b>	P22,378,074,231

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 23).

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 18 and 27).

## 16. Other Liabilities

This account at December 31 consists of:

### A. Other Current Liabilities

	<b>Note</b>	<b>2018</b>	2017
Retention on contracts payments		<b>P4,587,176,478</b>	P3,694,217,028
Advances for construction		<b>1,484,034,353</b>	1,290,152,334
Dividends payable		<b>1,210,500,000</b>	2,555,971,400
Advances from a subsidiary's minority interest		<b>474,730,215</b>	474,730,215
Advances from shareholders	20	<b>368,698,917</b>	368,698,917
Bidders/suppliers deposits		<b>102,128,524</b>	158,786,938
Others		<b>90</b>	1,182
	23	<b>P8,227,268,577</b>	P8,542,558,014

### B. Other Noncurrent Liabilities

	<b>Note</b>	<b>2018</b>	2017
Advances for construction		<b>P2,470,995,501</b>	P2,516,873,847
Others		<b>13,205</b>	992
	23	<b>P2,471,008,706</b>	P2,516,874,839

Retention on contracts 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 transmissions 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.

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## 17. Equity

Capital stock consists of:

	<b>Number of Shares</b>	<b>Amount</b>
Authorized shares (at P1 par value per share):		
Common	<b>5,050,000,000</b>	<b>P5,050,000,000</b>
Issued shares:		
Common	<b>4,149,866,000</b>	<b>P4,149,866,000</b>

As at December 31, 2018 and 2017, the Parent Company's offer price is P536 and P180, 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 billion divided into 50.00 million common shares at par value of P1 per share to P5.05 billion divided into 5.05 billion common shares at par value of P1 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.

### *Cash Dividends*

There were no dividends declared by the Parent Company in 2018 and 2017.

In 2018, the BOD of OTHI approved the declaration of cash dividends and stock dividends amounting to P5.34 billion and P2.9 billion, respectively, to all shareholders of record as of date of the meeting. The incremental costs directly attributable to the issuance of common shares amounting to P37.36 million which is eliminated during consolidation.

In 2018, the BOD of P21 approved the declaration of cash dividends amounting to P5.38 billion to all shareholders of record as of date of the meeting.

In 2018, the BOD of NGCP approved the declaration of cash dividends amounting to P18 billion to all shareholders of record as of date of the meeting. Of the total amount declared, P10.80 billion pertains to the share of the Parent Company which is eliminated during consolidation.

In 2017, the BOD of OTHI approved the declaration of cash dividends and stock dividends amounting to P5.61 billion and P1.6 billion, respectively, to all shareholders of record as of date of the meeting. The incremental costs directly attributable to the issuance of common shares amounting to P8.0 million which is eliminated during consolidation.

In 2017, the BOD of P21 approved the declaration of cash dividends amounting to P5.68 billion to all shareholders of record as of date of the meeting.

In 2017, the BOD of NGCP approved the declaration of cash dividends amounting to P19 billion to all shareholders of record as of date of the meeting. Of the total amount declared, P11.40 billion pertains to the share of the Parent Company which is eliminated during consolidation.

### *Retained Earnings*

The retained earnings of the Group includes the accumulated earnings in subsidiaries not available for declaration as dividends until declared by the respective investee.

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## **18. Franchise Tax**

As discussed in Note 1 to the consolidated financial statements, in consideration of the franchise and rights granted, the Group is required to pay a franchise tax equivalent to three percent (3%) of all gross receipts/actual collection derived from its operations under the franchise, in lieu of income tax and any and all taxes, duties, fees and charges of any kind, nature or description levied, established or collected on its franchise, rights, privileges, receipts, revenues and profits, and on properties used in connection with its franchise except for real property tax on real estate, buildings and personal property, exclusive of the franchise.

In view thereof, the Group's income from business activities included within the scope of its authority under Section 1 of R.A. 9511 is exempt from income tax, and consequently from withholding taxes, minimum corporate income tax (MCIT), improperly accumulated earnings tax (IAET), Value-Added Tax (VAT) and documentary stamp tax (DST). Subsequently, effective January 1, 2018, the implementation of TRAIN Law has changed the classification of NGCP from non-VAT to VAT entity which made all transactions affected therein to be subject to VAT (see Note 27).

Pursuant to Third Regulatory Period Final Determination under Clause 5.20, ERC Final Decision on Other Taxes, particularly Section 5.20.1 specifically states that "the 3% national franchise tax will not be included in the maximum allowed revenue (MAR) but will be recovered through a surcharge on the Regulated Entity's customers' invoices". NGCP started billing its customers the 3% national franchise tax effective on the billing period December 26, 2010 to January 25, 2011 as approved by the ERC under Resolution No. 07, series of 2011, "A Resolution Allowing the Distribution Utilities to Include Their Monthly Transmission Cost the NGCP's National Franchise Tax Billing." The Group adopted an accounting treatment for franchise tax that upon billing to its customers, both franchise tax receivable and franchise tax payable to BIR are set-up. As such, franchise tax recovery is not recognized in the profit or loss in view of the pass-through nature of the 3% national franchise tax (see Note 15).

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## **19. Revenues**

This account at December 31 consists of:

	<i>Note</i>	<b>2018</b>	2017
Transmission services operating income	25	<b>P43,782,111,886</b>	P43,861,947,317
Connection and residual sub-transmission income	25	<b>1,567,696,675</b>	1,565,478,531
Power factor adjustment		<b>52,194,442</b>	(2,029)
Discount on transmission service		-	(17,466,486)
		<b>P45,402,003,003</b>	P45,409,957,333

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.

Discount on transmission service refers to the discount granted pursuant to Presidential Executive Order or Contracts approved by the Energy Regulatory Commission (ERC) as a fiscal measure to encourage foreign investment.

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	Discount on Transmission Service	Total
Luzon	P31,076,966,890	P753,799,710	P52,194,442	P31,882,961,042
Distribution utilities	P29,105,716,255	P650,173,230	P -	P29,755,889,485
Generators	217,275,007	7,127,730	-	224,402,737
Industrial customers	1,577,450,219	83,234,007	52,194,442	1,712,878,668
Other customers	176,525,409	13,264,743	-	189,790,152
Visayas	P6,241,384,906	P309,626,799	P -	P6,551,011,705
Distribution utilities	P5,801,602,139	P293,333,041	P -	P6,094,935,180
Generators	106,432,616	34,755	-	106,467,371
Industrial customers	333,350,151	16,259,003	-	349,609,154
Mindanao	P6,463,760,090	P504,270,166	P -	P6,968,030,256
Distribution utilities	P6,254,335,066	P489,885,429	P -	P6,744,220,495
Generators	42,665,596	-	-	42,665,596
Industrial customers	163,995,434	14,134,381	-	178,129,815
Other customers	2,763,994	250,356	-	3,014,350
Total	P43,782,111,886	P1,567,696,675	P52,194,442	P45,402,003,003

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 revenue cap methodology.

During 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.

The Group is now on its Fourth Regulatory Period of January 2016 to December 2020. Notably, however, the regulatory reset process for the transmission and distribution under the performance-based regulation has been delayed. Under the RTWR, the Group would have filed its revenue application for the Fourth Regulatory Period (2016 to 2020) in 2015. To bridge the gap, the Group filed an Application for the Approval of an Interim MAR 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 27).

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 Fourth Regulatory Period, thus the billing of an iMAR of P43,789.05 in 2018.

## 20. Related Party Disclosures

The Group's balances and transactions with related parties are as follows:

Relationship with Related Parties	Year	Note	Amount of the Transaction	Outstanding Balance	Terms	Conditions
<b>Companies with the Same BOD</b>						
▪ PGAI	2018	a	P66,789,883	P6,161,271	On demand, non-interest bearing	Unsecured
	2017	a	80,799,865	5,021,190		
▪ SMDC	2018	b	3,339,000	-		
	2017	b	-	-		
<b>Shareholders</b>						
	2018	c	-	368,698,917	On demand, non-interest bearing	Unsecured
	2017	c	-	368,698,917		
<b>Key Management Personnel</b>						
▪ Short-term benefits	2018	d	411,705,192	-		
	2017	d	388,590,120	-		
▪ Post-employment benefits	2018	d	13,240,000	-		
	2017	d	19,370,000	-		
				<b>2018</b>	<b>P374,860,188</b>	
				2017	<b>P373,720,107</b>	

- The Group, through NGCP, has related party transactions with Prudential Guaranty Assurance, Inc. (PGAI) amounting to P66.79 million and P80.80 million in 2018 and 2017, respectively, representing insurance premiums. This pertains to motor vehicle insurance, aviation, commercial general liability insurance, PGA protect, motor comprehensive, industrial all risk, engineering electronic equipment insurance and warehouse insurance in nature. The outstanding insurance payable to PGAI amounting to P6.16 million and P5.02 million as at December 31, 2018 and 2017, respectively, is recorded under "Trade and other current payables" account in the consolidated statements of financial position.
- The Group, through NGCP, has existing lease agreement for parking space with SM Development Corporation (SMDC) amounting to P3.34 million and nil in 2018 and 2017, respectively. The Group has no outstanding payable to SMDC as at December 31, 2018 and 2017.
- As at December 31, 2018 and 2017, the Group, through P21, has outstanding payables to its stockholder amounting to P368.70 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 (see Note 16).
- Total remunerations of key management personnel which represent short-term benefits in 2018 and 2017 amounted to P411.70 million and P388.59 million, respectively. Total key management compensation relating to post-employment benefits for the years ended December 31, 2018 and 2017 amounted to P13.24 million and P19.37 million, respectively.

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## 21. Leases

The Group has various lease agreements under operating lease with terms of less than twelve (12) months for its rental of vehicles, machines and sound and protection systems. Rental expense in 2018 and 2017 amounted to P276.44 million and P189.41 million, respectively.

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## 22. Retirement Benefits

As at December 31, 2018 and 2017, 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 14, 2019 for the year ended December 31, 2018.

### Salient Provisions of the Retirement Plan

The plan provides retirement benefits under Republic Act No. 7641 (the Act) upon compulsory retirement at the age of sixty-five (65) or upon optional retirement at age sixty (60) or more but not more than age sixty five (65) with at least five (5) years in service. The benefits as required by the Act are equivalent to at least one-half month (1/2) month salary for every year of service, a fraction of at least six (6) months being considered as one (1) whole year. The term one-half (1/2) month salary shall mean: (a) 50% of the pay salary; (b) one-twelfth (1/12) of the thirteenth (13th) month pay; and (c) one-twelfth (1/12) cash equivalent of not more than five (5) days of service incentive leaves.

### Funding Arrangements

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	
	2018	2017	2018	2017	2018	2017
<b>Balance at beginning of year</b>	<b>P296,530,394</b>	<b>P280,477,966</b>	<b>P1,322,778,441</b>	<b>P1,126,080,662</b>	<b>P1,026,248,047</b>	<b>P845,602,696</b>
<b>Recognized in Profit or Loss and Statement of Financial Position</b>						
Service costs	-	-	121,540,278	217,050,697	121,540,278	217,050,697
Interest expense	-	-	47,686,298	40,584,910	47,686,298	40,584,910
Interest income	16,902,232	15,145,810	-	-	(16,902,232)	(15,145,810)
	16,902,232	15,145,810	169,226,576	257,635,607	152,324,344	242,489,797
<b>Recognized in Other Comprehensive Income</b>						
Remeasurements:						
Actuarial (gains) losses arising from:						
Experience adjustments	-	-	104,623,930	(25,375,241)	104,623,930	(25,375,241)
Changes in financial assumptions	-	-	(216,007,359)	(22,310,426)	(216,007,359)	(22,310,426)
Return on plan asset excluding interest	(22,926,107)	906,618	-	-	22,926,107	(906,618)
	(22,926,107)	906,618	(111,383,429)	(47,685,667)	(88,457,322)	(48,592,285)
<b>Others</b>						
Contributions	35,088,503	13,252,161	-	-	(35,088,503)	(13,252,161)
Benefits paid	(35,088,503)	(13,252,161)	(35,088,503)	(13,252,161)	-	-
	-	-	(35,088,503)	(13,252,161)	(35,088,503)	(13,252,161)
<b>Balance at end of year</b>	<b>P290,506,519</b>	<b>P296,530,394</b>	<b>P1,345,533,085</b>	<b>P1,322,778,441</b>	<b>P1,055,026,566</b>	<b>P1,026,248,047</b>

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:

	2018	2017
Deposits in banks	12.493%	.001%
Debt securities	7.743%	8.427%
Equity Securities	1.587%	1.656%
AFS debt securities	61.143%	68.136%
AFS equity securities	16.062%	20.903%
Dividends receivable	.016%	.028%
Accrued interest receivable	.956%	.849%
	100%	100%

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

	2018	2017
Current service cost	P105,950,497	P186,663,600
Interest cost	41,010,216	34,903,023
Interest Income of plan asset	(14,535,920)	(13,025,397)
	P132,424,793	P208,541,226

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

	2018	2017
Current service cost	P15,589,781	P30,387,097
Interest cost	6,676,082	5,681,887
Interest income of plan asset	(2,366,312)	(2,120,413)
	P19,899,551	P33,948,571

### Actuarial Assumptions

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

	<b>2018</b>	2017
Discount rate	<b>7.60%</b>	5.70%
Future salary growth	<b>5.00%</b>	5.00%

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

The mortality and the disability rate used in the valuation were based on 100% of the 1985 Unisex Annuity Table and 100% of the 1952 Disability Table, respectively. The discount rate assumed was based on single-weighted present value approach using bootstrapped-derived zero rates from PDST-R2 index.

The weighted average duration of the defined benefit liability as at December 31, 2018 and 2017 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%.

	<b>December 31, 2018</b>	
	<b>1% Increase</b>	<b>1% Decrease</b>
Discount rate	<b>(P91,156,807)</b>	<b>P105,767,134</b>
Salary increase rate	<b>100,698,792</b>	<b>(88,165,906)</b>

	December 31, 2017	
	.5% Increase	.5% Decrease
Discount rate	(P34,865,874)	P37,803,809
Salary increase rate	35,806,757	(33,339,093)

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 longevity risk and interest rate risk.

The Group does not plan to make additional funding in 2019.

## 23. Financial Instruments

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

	Note	2018	2017
Current assets:			
Cash and cash equivalents	11	<b>P13,618,415,023</b>	P18,613,048,752
Power receivables	12	<b>3,942,923,835</b>	4,065,445,461
Due from customers	12	<b>3,221,927,063</b>	2,902,532,705
Restructured power receivables	12	<b>22,569,775</b>	39,351,836
Interest receivable	11	<b>41,709,598</b>	20,813,937
Due from officers and employees and other receivables	12	<b>240,213,845</b>	122,130,056
Other investments	13	<b>1,210,500,000</b>	92,000,000
Total current financial assets		<b>22,298,259,139</b>	25,855,322,747
Noncurrent assets:			
Restructured power receivables		<b>1,467,243,650</b>	1,481,000,579
Power receivables		<b>282,341,761</b>	411,654,763
Total noncurrent financial assets	12	<b>1,749,585,411</b>	1,892,655,342
Total financial assets		<b>P24,047,844,550</b>	P27,747,978,089

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

	2018	2017
Balance at beginning of year	<b>P1,683,448,659</b>	P1,618,778,659
Provision for impairment losses on receivables during the year	<b>64,670,000</b>	64,670,000
Balance at end of year	<b>P1,748,118,659</b>	P1,683,448,659

Trade and other current payables, concession fee payable, loans payable, customers' and other deposits and other current liabilities in the consolidated statements of financial position as at December 31, 2018 and 2017 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 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, 2018 and 2017.

d) Past Due and Impaired Accounts

Receivables with an aggregate nominal value of P1.75 billion and P1.68 billion as at December 31, 2018 and 2017, respectively, were assessed to be impaired and hence, provided with allowance. There is a high concentration of credit risk with respect to these customers. These refer to accounts from customers in default due to financial difficulties without clear indication of recoverability and disputed charges already decided by ERC in favor of the customers. These accounts are in default and assessed as delinquent.

*Cash and Cash Equivalents*

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

*Receivables and Contract Assets*

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

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

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

The Group assessed that no material ECL is required for current receivables as at December 31, 2018 and 2017. As at December 31, 2017, the Group recognized total impairment allowance amounting to P1.68 billion attributable to and covers substantially all noncurrent receivables. The Group has assessed that there is no material difference between the estimated ECL allowance at the date of initial application of PFRS 9 and the previously reported allowance as at December 31, 2017. There is no material difference between the estimated ECL provision required for the year 2018 and the P64.67 million recognized by the Group based on the forecast bad debts provided in the Final Determination approved by ERC.

#### *Liquidity Risk*

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

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

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

The contractual maturities of financial liabilities including estimated payments as at December 31, 2018 and 2017 are as follows:

Note	As at December 31, 2018				
	Carrying Amount	Contractual Cash Flow	Less than 1 Year	More than 1 Year	
Non-derivative financial liabilities:					
Trade and other current payables*	15	P26,015,415,543	P26,015,415,543	P26,015,415,543	P -
Concession fee payable (current and noncurrent)	5	54,319,128,352	84,285,963,948	3,551,982,122	80,733,981,826
Loans payable (current and noncurrent)	14	103,278,126,485	133,375,831,134	14,951,537,286	118,424,293,848
Customers' and other deposits		319,758,218	319,758,218	-	319,758,218
Other current liabilities	16	8,227,268,577	8,227,268,577	8,227,268,577	-
Other noncurrent liabilities	16	2,471,008,706	2,471,008,706	-	2,471,008,706
		<b>P194,630,705,881</b>	<b>P254,695,246,126</b>	<b>P52,746,203,528</b>	<b>P201,949,042,598</b>

\*excluding taxes payables.

Note	As at December 31, 2017				
	Carrying Amount	Contractual Cash Flow	Less than 1 Year	More than 1 Year	
Non-derivative financial liabilities:					
Trade and other current payables*	15	P18,391,184,932	P18,391,184,932	P18,391,184,932	P -
Concession fee payable (current and noncurrent)	5	54,319,128,352	87,837,946,070	3,551,982,122	84,285,963,948
Loans payable (current and noncurrent)	14	91,378,229,072	114,764,731,019	16,601,507,356	98,163,223,663
Customers' and other deposits		302,070,756	302,070,756	-	302,070,756
Other current liabilities	16	8,542,558,014	8,542,558,014	8,542,558,014	-
Other noncurrent liabilities	16	2,516,874,839	2,516,874,839	-	2,516,874,839
		<b>P175,450,045,965</b>	<b>P232,355,365,630</b>	<b>P47,087,232,424</b>	<b>P185,268,133,206</b>

\*excluding taxes payables.

### 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, 2018 and 2017 pertains to its cash in banks, power receivables and trade and other liabilities denominated in US dollar, Euro, SGD, GBP, AUD, CAD and JPY.

The Group manages its foreign currency risk by hedging transactions that are expected to occur within a maximum 60-month period. When the nature of the hedge relationship is not an economic hedge, it is the Group's policy to negotiate the terms of the hedging derivatives to match the terms of the underlying hedge items to maximize hedge effectiveness.

The Group hedges its exposure to fluctuations on the translation of foreign currency by using foreign currency swaps and forwards.

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

December 31, 2018								
	U.S. Dollar	Euro	SGD	GBP	AUD	CAD	JPY	Peso Equivalent
<b>Assets</b>								
Cash and cash equivalents	\$56,624,900	€ -	SGD -	GBP -	AUD -	CAD -	JPY -	P2,985,491,210
Receivables	42,466,116	10,748,446	-	-	-	-	-	2,887,816,722
	99,091,016	10,748,446	-	-	-	-	-	5,873,309,932
<b>Liabilities</b>								
Accounts payable and accrued expenses	(61,566,752)	(1,483,092)	-	-	-	(3,261)	(11,840,000)	(3,361,981,363)
<b>Net foreign currency-denominated asset (liabilities)</b>	<b>\$37,524,264</b>	<b>€9,265,354</b>	<b>SGD -</b>	<b>GBP -</b>	<b>AUD -</b>	<b>(CAD3,261)</b>	<b>(JPY11,840,000)</b>	<b>P2,511,328,569</b>

December 31, 2017								
	U.S. Dollar	Euro	SGD	GBP	AUD	CAD	JPY	Peso Equivalent
<b>Assets</b>								
Cash and cash equivalents	\$1,614,467	€ -	SGD -	GBP -	AUD -	CAD -	JPY -	P81,303,811
Receivables	29,910,375	21,185	-	-	-	-	-	1,499,064,816
	31,524,842	21,185	-	-	-	-	-	1,580,368,627
<b>Liabilities</b>								
Accounts payable and accrued expenses	(45,066,766)	(1,527,897)	-	-	-	-	-	(2,121,493,157)
<b>Net foreign currency-denominated asset (liabilities)</b>	<b>(\$13,541,924)</b>	<b>(€1,506,712)</b>	<b>SGD -</b>	<b>GBP -</b>	<b>AUD -</b>	<b>CAD -</b>	<b>JPY -</b>	<b>(P541,124,530)</b>

With the translation of these foreign currency denominated assets and liabilities, the Group reported net foreign exchange loss of P423.56 million and P435.38 million in 2018 and 2017, respectively.

The following are the closing exchange rates applied as at December 31, 2018 and 2017:

	USD	Euro	SGD	GBP	AUD	CAD	JPY
<b>2018</b>	<b>53.062</b>	<b>60.26</b>	<b>38.67</b>	<b>67.09</b>	<b>37.51</b>	<b>39.11</b>	<b>47.66</b>
2017	50.00	59.48	37.34	67.02	38.87	39.56	0.441

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

December 31, 2018			
	Strengthening/ Weakening of the Philippine Peso	Effect on Profit	Effect on Equity
U. S. Dollar	+10%	(199,130,008)	199,130,008
	-10%	199,130,008	(199,130,008)
JPY	+10%	564,294	(564,294)
	-10%	(564,294)	564,294
NZD	+10%	11,640	(11,640)
	-10%	(11,640)	11,640
Euro	+10%	(55,830,426)	55,830,426
	-10%	55,830,426	(55,830,426)

December 31, 2017

	Strengthening/ Weakening of the Philippine Peso	Effect on Profit	Effect on Equity
U. S. Dollar	+10%	67,713,680	(67,713,680)
	-10%	(67,713,680)	67,713,680
Euro	+10%	8,961,714	(8,961,714)
	-10%	(8,961,714)	8,961,714

*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.

To manage this risk, the Group enters into interest rate swaps, in which it agrees to exchange at specified intervals the difference between fixed and variable rate interest amounts calculated by reference to an agreed-upon notional principal amount. Currently, the Group hedges its floating rate US Dollar denominated Term Loans through cross currency interest rate swap. Critical terms are perfectly matched, effectively transforming 100% of said loans into fixed rate Philippine currency loans.

#### Capital Management

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

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

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

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

The Group has to meet Debt to Equity Ratio required by the concession agreement. For the years ended December 31, 2018 and 2017, the Group is in compliance with these requirements.

#### Fair Values

The Group analyzes financial instruments carried at fair value by valuation method as at December 31, 2018 and 2017. The different levels have been defined as follows:

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly.
- Level 3: inputs for the asset or liability that are not based on observable market data.

As at December 31, 2018 and 2017, the Group's derivative financial asset and liability were measured based on Level 2 classification.

As at December 31, 2018 and 2017, 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.

*Derivative Asset/Liability.* The Group's outstanding cross currency and interest rate swaps are carried at fair value. The fair values are computed using the discounted cash flow method using effective rate of the swap determined based on quoted yield curves and forward rates with the same terms as the cash flow streams from the swaps.

#### Derivative Financial Instruments

The Group enters into derivative transactions as economic hedges of certain underlying exposures arising from its foreign currency-denominated loans. Such derivatives include cross-currency swaps accounted for as cash flow hedges.

Derivative Instruments Accounted for as Cash Flow Hedges

Cross Currency Swaps. In 2013, the Group entered into cross-currency swap transactions to hedge both the foreign currency and interest rate exposures on the Group's foreign currency denominated term loan. The table below provides the details of the Group's outstanding cross-currency interest rate swaps as at December 31, 2017:

Counterparty	December 31, 2017		Pay	US\$ - Php Rate	Maturity Date	Fair Value Gain (Loss)
	Outstanding Principal Balance	Receive				
	<i>(In Philippine Peso) (In US Dollar)</i>					
<u>Long-term Debt</u>						
Standard Chartered Bank Australia and New Zealand Banking Group Limited	P873,000,000	\$20,000,000				P118,269,544
Bank of Tokyo Mitsubishi, Ltd. Sumitomo Mitsui Banking Corporation	436,500,000 1,008,000,000	10,000,000 23,092,784	3-month USD-LIBOR- BBA plus 1.60% spread	6.23% 50.00	July 12, 2018	59,134,772 136,558,648
Mizuho Bank Ltd. Philippine National Bank	873,000,000 436,500,000	20,000,000 10,000,000				118,269,544 59,134,774
Derivative Asset	P4,500,000,000	\$103,092,784				P609,636,826

Under the floating-to-fixed cross-currency swaps, the Group pays fixed interest on the US\$ notional amount and receives floating rate on the Philippine peso notional amount, on a quarterly basis simultaneous with the interest payments on the term loan facility. In addition, the Group pays periodic US\$ principal payments and receives Philippine peso principal payments based on a given swap rate, equal to and simultaneous with the principal payments on the term loan facility.

As at December 31, 2018 and 2017, the effective portion of the change in fair values of these cross-currency swaps amounted to P125.69 million and P371.75 million, respectively, taken to equity under other comprehensive income. No ineffectiveness was recognized in profit or loss in 2018 and 2017. The amount that has been recycled from equity to profit or loss amounted to P80.54 million and P217.59 million retranslation gain in 2018 and 2017, respectively.

## 24. Contingencies

The Group, in the ordinary course of business, is a party to certain cases or claims under protest pending with administrative bodies or the courts, the outcome of which are not presently determinable.

### a. Civil Cases

NGCP is a defendant in an Arbitration case filed by Kalpataru Power Transmission Limited (KPTL) before the Construction Industry Arbitration Commission (CIAC) where the Arbitral Tribunal awarded damages in favor of KPTL, as follows:

PROJECT	DAMAGES		
	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:

PROJECT	RETENTION MONEY	
	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.

There are several other cases for ejectment, and recovery of possession filed against the Group and pending with the different trial courts nationwide. The total estimated amount of these civil cases is P62.47 million.

b. Tax Cases

On October 9, 2018, the CBAA ruled in NGCP vs. Ofelia M. Oliva, et al., and Ofelia M. Oliva vs. NGCP that the maintenance office building and warehouse building are used in connection with NGCP's franchise and therefore exempt from payment of real property tax. The case was remanded by the Supreme Court to determine whether the properties involved are actually used in connection with NGCP's franchise. 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 NGCP vs. Oliva cases and ordered the refund of taxes paid for the year 2009 on two office buildings used in the Talamban substation.

Below is the list of other LGUs which issued real property tax exemption to NGCP pursuant to the Supreme Court decision in the Oliva cases and BLGF Memorandum Circular No. 10-02-2017 dated October 10, 2017:

San Fernando City	Exempt NGCP from payment of RPT by issuing 24 revised tax declarations involving parcels of land
Larion, Tuguegarao	Issued revised tax declarations for 7 properties exempting NGCP from payment of RPT
Antipolo City	Issued revised tax declarations for 28 properties exempting NGCP from payment of RPT
Taytay Rizal	Issued revised tax declarations for 34 properties exempting NGCP from payment of RPT
Botolan, Zambales	Issued revised tax declarations for 14 properties exempting NGCP from payment of RPT
Ilagan, Isabela	Issued revised tax declarations for 7 properties exempting NGCP from payment of RPT
Limay, Bataan	Issued revised tax declarations for 2 properties exempting NGCP from payment of RPT
Orion, Bataan	Issued revised tax declaration for 1 property exempting NGCP from payment of RPT
Pililla Rizal	Issued revised tax declaration for 18 properties exempting NGCP from payment of RPT
Alfonso Cavite	Issued revised tax declaration for 3 properties exempting NGCP from payment of RPT
Lumban, Laguna	Issued revised tax declaration for 1 properties exempting NGCP from payment of RPT
Victoria Laguna	Issued revised tax declaration for 1 properties exempting NGCP from payment of RPT
Tayabas City	Exempt NGCP from payment of RPT issuing 206 revised tax declarations on properties described as machinery, lands and buildings
Amlan, Negros Oriental	Exempt NGCP from payment of RPT issuing 2 revised tax declaration on properties described as machinery.
Mabinay, Negros Oriental	Exempt NGCP from payment of RPT issuing 8 revised tax declaration on properties described as machineries.
Kibawe, Bukidnon	Exempt NGCP from payment of RPT issuing 16 revised tax declaration on properties described as machineries and parcels of land

NGCP was refunded the amount of P639,980.74 by the City of Tayabas.

Also, NGCP sent letters to the following LGUS requesting for the refund of the amount paid by NGCP on properties paid under protest:

1. Laoag City	P82,774
2. Taytay	209,487
3. Calauan	256,663
4. Pagsanjan, Laguna	11,649
5. Las Pinas City	70,635
6. Sta Cruz, Laguna	2,792
Total	<b>P634,000</b>

As of December 31, 2018, the Group has a total of one hundred twenty-seven (127) RPT and franchise tax cases pending before the LBAA, CBAA, RTC, the Court of Tax Appeals (CTA) and the Supreme Court and seventy-two (72) RPT notices of assessment and tax billings with no tax cases filed, totaling to 199.

In the CTA, the Court dismissed the petition filed by NGCP in the case of *NGCP VS STARLITA G. RUIZ, Municipal Assessor of San Francisco Agusan Del Sur and Cesar T. Rufila, Jr. OIC, Provincial Assessor of Agusan Del Sur* for failure to pay the tax under protest. NGCP filed Petition for Review before the SC on October 23, 2018. Pending resolution of the Petition for Review, NGCP continuously negotiates with the Provincial Assessor for the recognition of its real property tax exemption. Thus, a Joint Ocular Inspection was conducted by the parties on March 12-14, 2018. NGCP then submitted sworn statement on the true values of the properties involved. As of this date, per latest meeting with the Provincial Assessor, they will revise the tax declarations from taxable to exempt and that they will inform NGCP to pick up the tax declarations upon revision thereof.

In *NGCP vs the OIC, Provincial Assessor of South Cotabato and the Municipal Assessor of Tupi, South Cotabato* involving properties with assessed value of P78,885,860.00, the CTA dismissed the petition filed by NGCP for failure to pay RPT under protest. On August 22, 2018, NGCP filed Petition for Review before the Supreme Court.

Likewise, in the case of *NGCP vs. Fatima Tenorio, et al*, the CTA dismissed the petition filed by NGCP for failure to pay the tax under protest. However, since a similar case involving the same properties is also pending before the LBAA of Ilocos Sur, NGCP instead of appealing the decision before the SC, it paid the real property tax under protest in the amount of P10.17 million. NGCP filed another petition before the LBAA on November 05, 2018 contesting the collection and payment of the tax to be consolidated with the LBAA case now pending with the LBAA of Ilocos Sur.

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 real property tax (RPT) in the amount of P192 Million filed with the Regional Trial Court (RTC) of Cebu City, the Court set the Pre-trial hearing of the main case on February 22, 2019 having resolved already the ancillary remedy of writ of preliminary injunction in favor of NGCP. While waiting for the Pre-Trial hearing, the parties agreed to meet on February 12, 2018 to discuss the possibility of amicably settling the case.

There is also another Petition for Injunction involving RPT amounting to P17.31 Million against the Municipality of Labrador which was originally filed by NGCP before the RTC of Quezon City. The Petition before the RTC Quezon City was resolved in favor of NGCP and the decision was appealed by the Municipality of Labrador to the CTA. The CTA, however, reversed the decision of the RTC on the ground that RTC lacks jurisdiction to hear the case. NGCP filed a Petition for Review before the Supreme Court. The Supreme Court affirmed the decision of the CTA that RTC of Quezon City has no jurisdiction, dismissing NGCP's Petition for Review. The SC further held that the issue of whether the subject properties are actually used in connection with NGCP's franchise is a matter to be resolved in the LBAA pending case, LBAA Case No. P-11-002.

Also, NGCP has three (3) Petitions pending with the RTCs of Kidapawan City, Isabela Province and Quezon City and one (1) Appeal before the CTA from the decision of RTC Tacloban City, contesting the imposition and collection of Local Business/Franchise Tax, in the estimated total amount of P162.74 million.

Out of the one hundred twenty seven (127) Petitions pending before the various LBAA's, CBAA, RTCs, CTA and the Supreme Court, seventy five (75) RPT cases pertain to actions contesting the Notices of Assessment issued by the Provincial or City Assessors with total assessed value of P14,376,89 billion, forty eight (48) RPT cases involve Payment Under Protest contesting the Statements of Account or RPT Billings issued by the Provincial or City Treasurers in the amount of P34.63 million, and one (1) appeal before the CTA and three (3) cases before the RTC involving franchise tax in the total amount of P162.74 million.

With the BLGF Memorandum Circular and ruling of the Supreme Court, the Group 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 the refund of all real property taxes paid under protest. Meetings and negotiations with the various LGUs are being scheduled and conducted all year round for this purpose.

c. Right of Way (ROW) Expropriation Cases

Pursuant to Republic Act (R.A.) No. 9511, the Group is authorized to exercise the right of eminent 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.

As of December 31, 2018, the total number of expropriation cases filed/pending with the Courts, including Projects Under Construction (PUC) cases turned-over to the Group by the National Transmission Corporation (TransCo), is 846 with the total estimated amount involved of PhP2.518 Billion (based on provisional deposits).

d. Reclassification Cases

There are six (6) reclassification cases pending before the Energy Regulatory Commission.

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 Regulatory Period, there are still no approved CAPEX for the acquisition of these assets.

e. Permit Fees

There are four (4) 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 lieu of its 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 an appeal by the ERC with the Supreme Court.

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 million annually and Metering Authority Fees in the amount of P15 million every three years upon the renewal of NGCP's authority as the metering service provider. The Supervision and Regulation Fees is required to be paid on or before September 30<sup>th</sup> of each year with a penalty of fifty per centum in case of delinquency; Provided, further, that if the fees or any balance thereof are not paid within sixty days from the said date, the penalty shall be increased one per centum for each month of delinquency thereafter. On the other hand, the metering fee was assessed based on the authority granted by ERC 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 R.A. No. 9511 which exempts it from paying all other kinds of fees, taxes, and charges in lieu of its 3% Franchise Tax. 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 now pending before the Supreme Court for resolution.

g. Labor Cases

There are eight (8) labor cases pending with the Court of Appeals and National Labor Relations Commission filed by former NGCP employees against NGCP in different areas/regions for illegal dismissal, with prayer for reinstatement, and payment of backwages and damages and six (6) by employees of service providers in a service contract with NGCP wherein NGCP was impleaded as co-defendant. The cases are in the stage of submission of the parties' Position Papers and Memoranda, or submitted for resolution. 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 eleven (11) NGCP CAPEX Applications pending with the ERC for approval. Due to urgency of the projects, NGCP filed the CAPEX Applications for approval considering that ERC has not yet issued NGCP's Final Determination for the 4<sup>th</sup> Regulatory Period.

With regard to disputes with the Power Sector Assets and Liabilities Management Corporation ("PSALM") and TransCo, the dispute resolution process has 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. NGCP resorted to arbitration after attempts to settle its various claims by mutual discussion failed. The arbitration proceedings before the SIAC are 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 elevated to the Court of Appeals the issuance of the Writ by the Regional Trial Court of Quezon City where it is currently pending.

The Group has also filed a "Petition for the Approval off the Extension of the Period for the Listing of the Shares of National Grid Corporation of the Philippines" before the ERC where it is docketed as ERC Case No. 2018-014MC. The petition seeks the extension of the period, authorized by Section 8 of RA No. 9511, to make public offering of the shares representing at least twenty percent (20%) of its outstanding capital stock.

The Group has other possible claims from or obligation to other parties from past events and whose existence may only be confirmed by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Group.

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## 25. 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*.

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## 26. Earnings Per Share

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

	2018	2017
(a) Net income attributable to Equity holders of the Parent Company	<b>P8,407,746,106</b>	P8,250,946,743
(b) Weighted average common shares outstanding	<b>4,149,866,000</b>	4,149,866,000
Basic/diluted earnings per share (a/b)	<b>P2.03</b>	P1.99

As at December 31, 2018 and 2017, 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 2018 and 2017.

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## 27. Final Determination and Others

"The Final Determination, Regulatory Reset for the NGCP for 2011 to 2015" (Final Determination) was approved by the 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 Rules for Setting Transmission Wheeling Rates for 2003 to around 2027 (RTWR). 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 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 Group.

As discussed in Note 4 to the consolidated financial statements, the Group has signed a Concession Agreement with PSALM and TRANSCO, which covers the management and development of the transmission grid over the term of the franchise. Under the Concession Agreement, the Group is responsible for the operation, management and development of the grid, while TRANSCO continues to hold title over the transmission assets. Notwithstanding this, TRANSCO continues to be responsible for the settlement of Right of Way (ROW) claims in respect of projects that were ongoing at the time R.A. 9511 became effective, while the Group is responsible for ROW claims for projects that were initiated subsequent to the effectivity of the Act.

Hence, while the Group will incur the bulk of the costs of providing the Regulated Transmission Services over the 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 and over time, this leads to price efficiency since savings made in one regulatory period are built into the cost structure used to determine the MAR that will apply over the subsequent regulatory periods.

*Maximum Allowed Revenue (MAR)*

The ERC makes a determination of the annual revenue requirements (ARR) of the transmission business as well as the price control arrangements that will apply during the regulatory period. The RTWR requires the MAR to be smoothed to reduce the likelihood of price shocks to customers and revenue shocks to the Regulated Entity.

Following an annual rate verification and validation process, and using a price control formula, the ERC sets the MAR that the Group can bill its transmission customers for each year in the regulatory period.

As discussed in Note 19, following 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 iMAR2016 differential of P2,135.23 million, following the ERC Order dated December 19, 2016, this was collected by NGCP in 2017. The approved iMAR amounting to P43,789 million has been applied in 2017 and 2018.

In its Order dated 13 February 2020, the ERC granted NGCP a provisional authority to implement an iMAR<sub>2020</sub> in the amount of P47,051.64 million, an increase of P3,262.59 million from the iMAR<sub>2016</sub> 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 28 July 2020 directing the suspension of the billing of the iMAR<sub>2020</sub>. As a result, there was an unbilled iMAR<sub>2020</sub> differential in the amount of P2,962.59 million.

### *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. It 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 other inclusions of TRANSCO, 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 Fourth Regulatory Period, the Group continues to undertake the implementation of CAPEX which it deems prudent and necessary, and incur OPEX that is essential in its day to day operations to continuously fulfill its mandated function as the Transmission Provider.

### *Weighted Average Cost of Capital (WACC)*

The rate of return that the Regulated Entity can earn in its investment in transmission system assets is equal to the WACC as set by the ERC during each Reset based on a market analysis of the rate of return a business in the Philippines with a similar risk profile to the Regulated Entity can be expected to earn.

### *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 for 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 P674.30 million and P74.50 million respectively as at December 31, 2018 and Input VAT related to CAPEX and OPEX presented under "Other taxes" account in profit or loss amounted to P100.64 million and P887.67 million in 2018 and 2017, respectively.

With the implementation of the TRAIN Law under Republic Act (R.A.) No. 10963 which took effect on January 01, 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 01, 2018, all Input Taxes related to purchases of goods and services both for CAPEX and OPEX shall be considered as Input VAT, deductible from the Group's Output VAT Payable pursuant to the BIR rules and regulations.

#### *Performance Incentive Scheme (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 Fourth Regulatory Period, 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 Group.

#### *Rate Arrears - Transferred Assets*

An issue that has arisen since the Draft Determination is the recovery of rate arrears in respect of sub-transmission and connection assets that are to be transferred to the RAB at the beginning of the 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 Group may be damaged or destroyed. In such cases, increase in costs incurred by the Group in addition to the maximum amounts that it is otherwise permitted to charge to its transmission customers through the MAR is allowed to be recovered through FME Pass Through charges, subject to the approval of ERC in accordance with Article X of the RTWR.

For capital expenditures (i.e., replacement with new assets), partial recovery through additional FME charges will be billed on top of the regulated charges from the time of its approval until the end of the current Regulatory Period. The remaining unrecovered cost will then form part of the RAB assets to be carried forward to the subsequent regulatory period and recovered through regulatory depreciation with reasonable rate of return based on WACC. For operating expenditures (e.g. repairs), recovery during the current regulatory period as additional OPEX, is allowable.

The assets destroyed by such FMEs are removed from the RAB in the succeeding regulatory reset, but recovery is allowable through application for "accelerated depreciation".

Management does not consider the occurrences of FMEs as impairment indications with respect to the future economic benefits.

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 Group to collect the FM Event Pass-Through Amount Charge from its Luzon and Mindanao Grid customers, and allowed FME rates corresponding to these FME claim applications until December 31, 2015, which is the last year under the Third Regulatory Period.

For 2016 to 2018, the following FME Claims were submitted to the Commission:

Year	FME Claim	Date Filed
2016	Typhoon Lando and Sabotage Incidents in Mindanao	October 07, 2016
	Typhoon Nona and Sabotage Incidents in Mindanao	December 12, 2016
2017	Typhoons Karen and Lawin	October 12, 2017
	Typhoon Nina	December 22, 2017
2018	Earthquake in Leyte	July 05, 2018
	Bombing/Sabotage Incidents in Mindanao and Luzon, and Lightning/Thunder Incident in Luzon	October 02, 2018
	Severe Tropical Storm Urduja in the Visayas, Typhoon Vinta in Mindanao, Tropical Storm Basyang in the Visayas and Mindanao, and Flash Flood in Mindanao	December 11, 2018

All FME cases filed with the ERC in years 2012 to 2018 are still pending approval with the ERC.

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

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

The Group's excluded services, as provided in the RTWR. Currently, this includes the provision of Transmission Connection Services, and the management of Residual Sub-transmission Assets. Income from these excluded services is recognized under Connection and Residual Sub-transmission Income under "Revenues" account presented in profit or loss.

The ERC, in its Decision dated July 6, 2011 (ERC Case Nos. 2008-066RC and 2009-153 RC), approved the CC/RSTC for the years 2008 and 2009 with modification. Further, it required the filing of its application for the approval of the 2011 and 2012 CC/RSTC within 30 days from receipt of the Decision and within the same period as the filing of the MAR 2012, respectively.

In compliance with the ERC's directive in the said Decision, the Group applied for the approval of CY 2011 and 2012 CC/RSTC in December 2011. Also, the Group commenced billing customers of the ERC-approved 2009 CC/RSTC starting December 2011 billing month.

The ERC, in the same issuance, likewise directed the Group to bill the approved re-computed charges for CY 2009 as its current charges to all customers effective December 2011 billing month. These re-computed charges considered the asset reclassification made in the 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 Group, in December 2011 filed a Motion for Reconsideration (MR) which challenged the interest imposition. To date the ERC is yet to be resolved the MR.

Moreover, this ERC Decision effectively repealed the Deferment Orders issued in year 2008 covering the following nine (9) power customers, namely: Ifugao Electric Cooperative, Inc. (IFELCO), Eastern Samar Electric Cooperative, Inc. (ESAMELCO), Northern Samar Electric Cooperative, Inc. (NORSAMELCO), Leyte IV Electric Cooperative, Inc. (LEYECO IV), Davao Oriental Electric Cooperative, Inc. (DORECO), Surigao del Sur II Electric Cooperative, Inc. (SURSECO II), Mountain Province Electric Cooperative, Inc. (MOPRECO), Negros I Electric Cooperative, Inc. (NORECO I), Busco Sugar Milling Co., Inc. (BUSCO).

Consistent with the foregoing, the accounts of the nine (9) power customers were adjusted to consider the implementation of the approved CYs 2008 and 2009 CC/RSTC and the reclassification of assets.

Subsequent to this, the Group 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 Group submitted the 2011, 2012 and 2013 Re-computed CC/RSTC on September 4, 2014.

On October 8, 2014, the Group 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 Group received a copy of the ERC Order dated June 2, 2015 directing the Group 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 Group 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 06 October 2017, the Group 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 Group 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.

#### Valuation of STAs

Article V Section 2 of the Guidelines states "Asset valuation shall be the agreed value as negotiated between TRANSCO and the Qualified Distribution Utility or Qualified Consortium in a manner consistent with Section 8 of the Act. This negotiated value shall be deemed to be the Current Sound Value of the Sub-transmission Assets at the time of the acquisition of the assets."

Article V Section 2 of ERC Resolution No. 1, Series of 2009 states that "if the contract was entered after June 13, 2006, the sub-transmission assets shall be valued in reference to the Sinclair Knight Merz (SKM) valuation or any subsequent valuation as approved by the Commission." This was further amended by ERC Resolution No. 18 Series of 2009.

#### Negative Pledge

Pursuant to Section 5.03 (Negative Pledge) of the Concession Agreement, TRANSCO shall not without the Concessionaire's prior written consent, sell, dispose of, or create any lien or encumbrance over Transmission Assets except that TRANSCO shall be entitled to dispose of Sub-Transmission Assets in accordance with Section 8 of the EPIRA and retain the proceeds thereof. The Concession Fee shall be reduced in accordance with paragraph 1 (c) of Schedule 6 (Adjustment to Concession Fee) to reflect any disposals of STAs after the Bid Date, subject to Section 6.04 regarding the Commencement Fee.

### Sale of STAs

For 2016 to 2018, the following sub-transmissions assets were divested by TransCo to Qualified Distribution Utilities:

Year	Acquiring Distribution Utility	Assets Acquired
2017	Ilocos Norte Electric Cooperative, Inc. (INEC)	Currimeo - San Nicolas 69kV San Nicolas - Laoag 69kV Laoag - Sarrat 69kV Sarrat - Marcos 69kV Sarrat - Piddig 69kV
	Central Pangasinan Electric Cooperative, Inc. (CENPELCO)	Mangaldan Bari S/S Site Establishment Transformer, two winding, 5 MVA 69/13.8 kV Structures and Improvements
	Isabela I Electric Cooperative, Inc. (ISELCO I)	Cauayan substation (all eqpt. and facilities incl. 15 MVA transformer)
	Mactan Electric Company (MECO)	Mactan Loadend S/S-GIS 69kV TMX/STR #20 MEPZ loadend S/S 69kV Mactan Loadend S/S #3 69kV MECO S/S 31 MECO S/S #3 69kV GIS-MECO S/S #2 69kV GIS 69kV Mactan Loadend S/S-Mulle Osmena 69kV Mactan-PAF 13.8kV Mandaue-Mactan Power Cable 69kV

Based on the TransCo Report on Sub-Transmission Assets with ERC Approval as of 31 December 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 21 July 2015) and the full payment (from an existing Deed of Transfer of Possession dated 10 June 2009).

### Revenue from Related Business

The Group provides the following services that utilize part of the RAB:

- Rental of facilities and equipment; and
- Co-location, antenna attachments, use of building lots and space, use of access roads, attachment of telephone cables, and tapping to AC/DC power sources.

The Group also earns revenue from provision of the following services that do not involve the use of RAB assets:

- Technical assistance, including assisting with the testing, commissioning, calibration and maintenance of client's facilities; and
- Conduct grid impact studies for existing and prospective grid users.

### Ancillary Service Charges

The Group includes in its monthly billings to customers pass through charges for provision of Ancillary Services (AS) which are generation-related services.

Relative to this, the Group has undertaken the reconciliation of its billing and payment of AS and AS VAT for years 2009 to 2017.

The Group has also submitted its compliances with ERC on the Ancillary Services Procurement Agreements (ASPA) with National Power Corporation (NPC) and Therma Marine, Inc. (TMI) involving re-computation of AS costs and collection/refund of AS charges from/to customers pursuant to pertinent ERC Orders/Decisions.

ERC in its Order dated June 16, 2014 in ERC Case Nos. 2010-011 RC and 2010-014 RC entitled, "In the Matter of the Application for Approval of the Ancillary Services Procurement Agreement (ASPA) between the National Grid Corporation of the Philippines (NGCP) and Therma Marine, Inc. (TMI), with Prayer for Provisional Authority," directed the Group to refund its customers the amount of P12.7 million and the corresponding VAT, for a period of twelve (12) months or the amount of P1.06 million plus VAT, per month starting its next billing cycle from receipt of the Order.

Consistent with the aforesaid Order, the Group implemented the refund effective September 2014 billing month or August 26 to September 25, 2014 for a period of twelve (12) months or until August 2015 billing month (July 26 to August 25, 2015), equivalent to a monthly credit adjustment of P1.26 million refund of the AS Cost was funded by TMI deposited monthly to the Group's accounts. TMI shall also fund the AS-VAT refund after its conduct of reconciliation with the Group.

On March 15, 2016, ERC issued an Order approving the recovery of the Differential Charge for the Ancillary Service provided by NPC to NGCP representing the March 26, 2008 to October 25, 2009 billing period under ERC Case No. 2009-029 RC. Pursuant to this, the Group commenced the billing of Ancillary Service Differential Charge of P31.38/kW-month for the Luzon, Visayas, and Mindanao grids effective May 2016 billing month or April 26 to May 25, 2016 to customers who benefitted from the Ancillary Services provision from April 2008 to October 2009 billing months. As of October 2016 billing month, NGCP has fully billed and stopped the billing of AS Differential Charge in Luzon.

Subsequently, during the December 2016 billing month, NGCP implemented the refund of the over-recoveries resulting from AS transactions in CYs 2009 and 2010 as an outright and one-time deduction from the current AS Costs in the amount of P150.08 million and P2.40 million for Luzon and Mindanao Grids, respectively.

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## 28. Events After Reporting Period

- a. *New Construction Contracts.* In 2021, the Group entered into new construction contracts amounting to P5.40 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 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 NLOM
- Implementation Consultancy Services for Substation Projects, Schedule I - San Simon 230KV and Pinili 230KV Substation Projects, Schedule II - Marilao 500KV Substation Project
- Supply of Labor, Tools, Materials, Supplies and Equipment for the Installation of Deluge Water Spray System for the Power Transformer at Various Substation of SLOM
- Foundation Works for Package D: Mindanao - Visayas Interconnection Project - Schedule I (Visayas +20kV Electrode Lines)
- Supply and Delivery of Current Transformer, Combined Instrument Transformer and Voltage Transformer (Batch 1)
- Supply of Labor, Tools, Materials, Supplies and Equipment for the Installation of Deluge Water Spray System for the Power Transformer at Various Substation of VOM
- Cebu-Negros-Panay 230kV Backbone Project - Stage 3, Phase 3 (Quiot and Cebu Substations)
- Supply and Delivery of STACIR Conductor
- OPGW Retrofitting Project: Matanao - Kidapawan 138 kV Line 1
- Supply Service Agreement Ref. No. Tpd-2018-05-1932
- Supply of Labor, Tools, Materials, Supplies and Equipment for the Installation of Deluge Water Spray System For The Power Transformer At Various Substation of MOM
- Supply Service Agreement Ref. No. Tpd-2018-05-1932
- Design, supply, delivery, installation, configuration, testing and commissioning of High Availability (HA) Enterprise and Data Center Core Level Switches For The Primary (2xha Nodes) And The Secondary (1xha Node) Data Centers
- Hauling, Installation, Wiring, Testing and Commissioning of 100 MVA and 50MVA Transformer at Tuguegarao Substation
- Design, Supply, Delivery, Installation, Configuration, Testing, And Commissioning of Five (5) Nodes of Next generation Firewalls In High Availability (HA) Configurations With Central Management System
- San Manuel-Nagsaag 230kv Transmission Line Project (500/230kv Substation Portion)- Supply and Delivery Of Current Transformer
- Parcellary Survey Of Porac 230kV Substation Project (Schedule I), Hermosaporac 230kv T/L (Schedule II), and Porac-Capas 230kV T/L and Clark 230kV T/L Extension (Schedule III)

- Furnishing of Materials, Labor, Equipment and other Incidentals for Construction of Bored Pile Foundation For Tower Nos. 193 and 196 Along San Francisco-Bislig 138 KV Transmission Line
- Parcellary Survey, Schedule I - Taguig 500kV Substation (Transmission Line Component) and Schedule II - Pagbilao - Tayabas 500kV Transmission Line Project
- Supply, Delivery, Installation, Configuration, Testing and Commissioning of Real-Time Cyber Security Operational Visibility Solution For NGCP Visayas BCC In Cebu and Negros Network Security
- 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
- Service Contract for The Engineering Geological and Geotechnical Investigation Of The Proposed Santiago-Nagsaag 500 kV T/L
- Extension of Materials Management Services for Transmission Line Project For Tuy-Dasmariñas 500kv Transmission Line Project (TI Portion)
- Maramag Substation Rehabilitation Project Stage 1 - Schedule Ii (Maramag Substation) Expansion, Modification and Reconfiguration Of Existing Substation Automation System At Maramag Substation
- Service Contract for The Engineering Geological And Geotechnical Investigation Of The Proposed Northern Luzon 230 Kv Loop (Pr No. 10047331)
- Supply and Delivery Of Tools & Equipment
- Design, Manufacture, Delivery, Installation, Assembly, Testing and Commissioning Of Spare Power Transformer, Schedule V - 1x10mva, 69/13.8kv
- Mindanao IP Network Expansion- PE Layer

For 2021, the Capital Expenditures approved by the Board on March 19, 2020 amounted to P50.51 billion. Construction costs incurred amounted to P18,489,691,842 as at June 30, 2021.

In 2020, the Group entered into new construction contracts amounting to P60.88 billion, among the major contracts are as follows:

- Cebu-Bohol Interconnection Project (CBIP) Submarine
- Cebu-Bohol 230kV Interconnection Project - Submarine Cable Portion (Sp20.CBIPSC.Vt-0430)
- Negros-Panay 230kV Interconnection Project, Line 2, Submarine Cable Portion, Sp20.NPIPSC.L2.Vt-0484
- Mindanao-Visayas Interconnection Project (Umapad GIS Portion) & Lapu-Lapu 230kV Substation Project (GIS Portion), Sp20.MVIP(UMP)&LLSP.Vt-0487
- Manila (Navotas) - Marilao 230kV Transmission Line Under Manila (Navotas) 230kV Substation Project, Sp20.MMTL.Lt-0456
- Hermosa-San Jose TL
- Binga-Nagsaag (San Manuel) 230kV Transmission Line Project & Ambuklao - Binga 230kV Transmission Line Upgrading Project, Sp20.BNTLP&ABTLUP.Lt-0477
- Abuyog 230kV Substation Project, Sp20.ABUSP.Lt-0464
- Laguindingan 230kV Substation Project, Sp20.LSP.Mt-0488
- CBIP Sched 1
- Cebu - Bohol Interconnection Project (Sp20.CBIP OHTL.Vt-0461) Schedule I - Dumanjug - Argao 230kv Transmission Line
- CNP Stage 3 TL

- Taguig - Baras 500kV Transmission Line (Package B: Laguna Lakeshore Portion) Under Taguig 500kV Substation Project, Sp20.TBETL(TSP).Lt-0455
- Tacurong - Kalamansig 69kV Transmission Line Project (Sp20.TKTLP.Mt-0469) (SCHEDULE I - TKn-01 to TKn-413; SCHEDULE II - TKn-414 to KALAMANSIG S/S)
- NCB S/S
- Nabas-Caticlan-Boracay 138kv Transmission Line Project (Substation Portion), Sp20.NCBTLP(SS).Vt-0450
- Cebu - Bohol Interconnection Project (Sp20.CBIPOHT.Vt-0461) Schedule II - Maribojoc - Corella 230kv Transmission Line
- Panay-Guimaras 138KV Sched 2 s/s
- Amlan-Dumaguete 138kV Transmission Line Project (Substation Portion), Sp20.ADTLP.Vt-0489
- Nagsaag-Tumana
- Typhoon Rolly
- LVIP-3 Stage 2 sched 5
- Schedule III - Negros & Panay Island (Sp20.VSUP2.Vt-0479 (III))
- Schedule II - Cebu & Bohol Region (Sp20.VSUP2.Vt-0479 (II))
- Dumanjug 230kv Substation Expansion Project Under Cebu-Bohol 230kV Interconnection Project & Dumanjug 138/69kV Expansion Project Under Mindanao

For 2020, the Capital Expenditures approved by the Board on March 07, 2019 amounted to P49.70 billion. Construction costs incurred amounted to P41,236,872,447 in 2020.

As of December 31, 2019, the Group entered into new construction contracts amounting to P23.9 billion, as follows:

- Cebu-Bohol 230kV Interconnection Project
- Cebu-Lapu Lapu Transmission Project
- Cebu-Negros-Panay (CNP) 230kV Backbone Project
- Design, Supply and Installation of Transformer Fire Protection (Deluge Water Spray System) Under North Luzon Substation Upgrading Project
- Detailed Engineering Services of Navotas 230kV Substation and Taguig 500kV Substation Projects and Associated Transmission Line (Navotas Component)
- Eastern Albay 69kV Transmission Line Project
- Hermosa (Balsik)-San Jose 500kV Transmission Line Project
- Kabacan 138Kv Substation Project (Including Kidapawan And General Santos 138Kv Substations) And Tacurong-Kalamansig 69Kv Transmission Line Project
- Luzon Voltage Improvement Project 3
- Marilao (Balsik)-San Jose 500kV Transmission Line Project
- Mindanao Substation Rehabilitation Project
- Mindanao Substation Upgrading Project
- Nabas-Caticlan-Boracay 138kV Transmission Project
- Panay-Guimaras 138kV Interconnection Project
- Permanent Restoration of Colon-Samboan 138kV Lines & 2 Affected by Landslide
- Pinili 230kV Substation Project
- Real-Time Monitoring and Control Equipment for Distribution Utilities and Monitoring Equipment for Generators Project
- Rerouting of Various Luzon Transmission Line Project
- San Manuel-Nagsaag 230kV Transmission Line Project
- San Simon 230kV Substation Project
- South Luzon Substations Upgrading Project

- Taguig 500Kv Substation Project
- Visayas Substation Upgrading Project
- Tower site improvements along Hermosa-Castillejos
- Marilao EHV SS Project
- Amendment for the Panit-an Nabas Line 2 Project

For CY 2020, the projected Capital Expenditures approved by the Board on March 07, 2019 amounted to P49.70 billion. Construction costs incurred amounted to P32,297,776,306 in 2019.

b. *Loans Payable.* Proceeds from loans in 2021 amounted to P17,000,000,000 which includes P5,000,000,000 proceeds from loans availed on July 14, 2021 from BDO as part of P20,900,000,000 Term Loan agreement entered on July 7, 2021. Payments of loans payable in 2021 amounted to P6,479,564,775. Proceeds from loans in 2020 amounted to P19,200,000,000. Payments of loans payable in 2020 amounted to P11,683,444,328. Proceeds from loans in 2019 amounted to P34,300,000,000. Payments of loans payable in 2019 amounted to P9,409,360,137.

c. *Dividends*

The BOD of NGCP declared cash dividends amounting to P3.0 billion on March 25, 2021, and June 16, 2021 out of its unrestricted retained earnings as of date of declaration. The dividend was fully paid to stockholders of record on March 25, 2021 and June 17, 2021, respectively in proportion to their respective shareholdings.

The BOD of OTHI declared cash dividends amounting to P900.00 million on May 10, 2021 out of its unrestricted retained earnings as of date of declaration. The dividends was fully paid to the stockholder of record on July 5, 2021, in proportion to their respective shareholdings.

The BOD of P21 declared cash dividends amounting to P900.00 million on May 10, 2021 its unrestricted retained earnings as of date of declaration. The dividends was fully paid to the stockholders of record on July 5, 2021, in proportion to their respective shareholdings.

The BOD of NGCP declared cash dividends amounting to P3.0 billion on March 19, 2020, June 18, 2020, September 17, 2020 and November 19, 2020 out of its unrestricted retained earnings as of date of declaration. The dividend was fully paid to stockholders of record as of the date of declaration in proportion to their respective shareholdings.

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.

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.

In 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.

The BOD declared cash dividends amounting to P3.75 billion in March 7, 2019, June 26, 2019, September 26, 2019 and November 21, 2019 out of its unrestricted retained earnings as of date of declaration. The dividend was fully paid to stockholders of record as of the date of declaration in proportion to their respective shareholdings.

d. *Maximum Allowed Revenue (MAR)*

In its Order dated February 13, 2020, the ERC granted NGCP a provisional authority to implement an iMAR<sub>2020</sub> in the amount of P47,051.64 Million, an increase of P3,262.59 million from the iMAR<sub>2016</sub> 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<sub>2020</sub>. As a result, there was an unbilled iMAR<sub>2020</sub> differential in the amount of P2,962.59 Million.

e. *Tax Cases.*

As of 31 December 2019, the Group has a total of one hundred fifteen (115) RPT and franchise tax cases pending before the LBAA, CBAA, RTC, the Court of Tax Appeals (CTA) and the Supreme Court, and additional twenty-four (24) RPT notices of assessment and additional twelve (12) tax billings with no tax cases filed.

As to the other Real Property Tax (RPT) cases, on October 12, 2020, NGCP received a copy of the CTA Decision, dated September 23, 2020, in CTA EB No. 2110 (City Assessor's Office of Valenzuela City vs. NGCP) reversing and setting aside the Decision dated August 22, 2012 of the LBAA and the October 8, 2018 Decision and May 31, 2019 Resolution of the CBAA. The CTA declared the Notice of Assessment dated October 9, 2012, as final, executory and unappealable. On October 23, 2020, NGCP filed its Motion for Reconsideration. Thereafter, NGCP received on October 23, 2020, the Statement of Account issued by the City Treasurer on the 37 machineries/transmission towers subject of the case in the total amount of P421,754,196.96. On October 30, 2020, NGCP requested the City Treasurer and City Assessor the following: (a) refer to TransCo the notice of delinquency for real property tax covering years 2002 to 2008; (b) classify the 37 machineries/transmission towers, as exempt from payment of real property tax from year 2009 onwards; and (c) issue revised tax declarations on 37 machineries/transmission towers and indicate thereon that NGCP is the beneficial user of the same and to re-classify said properties from taxable to exempt.

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 real property tax (RPT) in the amount of P192 million filed with the Regional Trial Court (RTC) of Cebu City, the Court set the Pre-trial hearing of the main case on 22 February 2019 having resolved already the ancillary remedy of writ of preliminary injunction in favor of NGCP. The parties already submitted their respective Memoranda and the case is now submitted for resolution.

Out of the one hundred twelve (112) petitions pending before the various LBAs, CBAA, RTCs, CTA and the Supreme Court, seventy-one (71) RPT cases pertain to actions contesting the Notices of Assessment issued by the Provincial or City Assessors with total assessed value of P14.56 billion, forty-one (41) RPT cases involve Payment Under Protest contesting the Statements of Account or RPT Billings issued by the Provincial or City Treasurers in the amount of P44,328,411.

With respect to business taxes, franchise tax and other fees and charges subsequent to December 31, 2020, NGCP has one (1) case pending before the Metropolitan Trial Court (MTC) and one (1) pending before the Municipal Trial Court in Cities (MTCC), in the estimated total amount of P68,488. NGCP also has one (1) case involving payment under protest contesting the statements of account or billings issued by the Provincial or City Treasurer in the total amount of P0.6 million.

f. *ROW Expropriation Cases*

As of 31 December 2019, the additional number of expropriation cases filed/pending with the Courts, including Projects Under Construction (PUC) cases turned-over to the Group by the National Transmission Corporation (TransCo), is 142 with the total estimated amount involved of P617 Million (based on provisional deposits).

On 2 June 2020, in a telephone follow up with RTC-Pasay City, NGCP was informed that the court does not conduct hearings yet. NGCP was 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 30 June 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 27 July 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 RTC-Pasay City on July 13, 2021. The Omnibus Motion to Withdraw Complaint and Provisional Deposit was granted by RTC-Pasay City after the hearing on July 21, 2021. NGCP will file a Partial Motion for Reconsideration regarding the interest on the provisional deposit.

On March 18, 2021, NGCP's Motion to Enforce Court Order was granted by the Supreme Court. The court records were transmitted to RTC-Pasay City on July 13, 2021. The Omnibus Motion to Withdraw Complaint and Provisional Deposit was granted by RTC-Pasay City after the hearing on July 21, 2021. NGCP will file a Partial Motion for Reconsideration regarding the interest on the provisional deposit (see Note 22).

Subsequent to December 31, 2020, the total number of expropriation cases filed/pending with the Courts, including PUC cases turned-over to the Group by the TransCo, increased by 321, with the total estimated amount involved of P398 million (based on provisional deposits).

g. *Other Cases*

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 the Initial Public Offering requirements until successful listing within six (6) months from receipt of the Order.

h. *Significant Transactions Related to Corona Virus Disease 2019 (COVID-19).*

▪ **ERC Advisories Related to COVID-19**

Initially, March 26, 2020, the Energy Regulatory Commission (ERC) released an Advisory in line with the Department of Energy's (DOE) Memorandum issued on March 18, 2020 calling the public and private power sector corporations to defer payments of obligations and dues for thirty (30) days after the conclusion of Enhanced Community Quarantine (ECQ) period on April 14, 2020, and the President's recent pronouncements, thereby directing payment of all fees due to the generation companies, Power Sector Assets and Liabilities Management Corporation (PSALM), National Power Corporation (NPC), National Transmission Corporation (TransCo), the Group and the Market Operator (MO) from March 15, 2020 to April 14, 2020 are extended for thirty (30) days from April 14, 2020, without interest and penalties. Thus, the Group's February 2020 power bill which is due on or before March 25, 2020 is affected by the March 26, 2020 ERC Advisory.

In view of the national government's extension of the ECQ until April 30, 2020, the ERC thereby issued on April 15, 2020 another Advisory directing electric power industry stakeholders such as:

- All Distribution Utilities (DUs) and Retail Electricity Suppliers (RES) are directed to provide a grace period to all captive and contestable customers through the deferment of their electricity bill falling due within the period of the ECQ or from March 16 to April 30, 2020, without interest, penalties, fees and other charges.
- The cumulative amount of electricity bill that was supposed to have fallen due within the ECQ period shall be amortized in four (4) equal monthly installments, payable in the four (4) succeeding billing months following the end of the ECQ. This shall be reflected as a separate item in the electricity bill due on those succeeding months, provided that the first billing due date following the ECQ shall be no earlier than May 15, 2020; and
- The Generators/Suppliers, PSALM, NPC, TransCo, the Group, Independent Power Producers (IPPs), Independent Power Producer Administrators (IPPAs) and the MO shall extend the same payment scheme as provided in the preceding paragraph, to the RES, DU and other customers. Availment of Prompt Payment Discount (PPD) will still be in accordance with the parties' approved supply contract.

The April 15, 2020 Advisory supersedes the March 26, 2020 Advisory of the ERC.

In this regard, NGCP's March 2020 power bill which is due on April 25, 2020 is also affected by the April 15, 2020 Advisory.

Another ERC advisory was issued on May 5, 2020 in line with the government's directive extending anew the ECQ in the National Capital Region (NCR) and some other areas until May 15, 2020. The ERC hereby amends and clarifies some items in the April 15, 2020 Advisory for the proper guidance of electric power industry stakeholders, to wit:

- DUs and RES operating in areas that continue to be under the ECQ are directed to further extend the grace period for the payment of their consumers' electricity bills falling due within the ECQ period of March 16 to May 15, 2020, without interest, penalties, fees and other charges. The directive on the amortization of payments in four (4) equal monthly installments, payable in the four (4) succeeding billing months following the end of the ECQ shall continue to be observed, but payments thereof by customers in areas covered by ECQ extension until May 15, 2020 shall commence no earlier than May 30, 2020;
- DUs and RES that are operating in areas under the General Community Quarantine (GCQ) shall retain the grace period on the due date of their consumers' electricity bills not earlier than May 15, 2020, without interest, penalties, fees and other charges. Similarly, the directive on the amortization of payments in four (4) equal monthly installments, payable in the four (4) succeeding billing months is hereby reiterated; and
- The Generators/Suppliers, PSALM, NPC, TransCo, the Group, IPPs and IPPAs and the MO shall extend the same payment scheme as provided in the preceding paragraph, to the RES, DU and other customers, depending on whether such customer is operating under an ECQ or GCQ. Availment of PPD will still be in accordance with the parties' approved supply contract.

In line with the recent ERC Advisory, NGCP's February and March 2020 power bills are covered by the four (4) months equal monthly installments commencing on May 25, 2020 for those under GCQ and no earlier than May 30, 2020 or June 1, 2020 for those under ECQ. Areas that are under ECQ until May 15, 2020 are NCR, Region 3 (except Aurora), Region IV-A (or CALABARZON), Pangasinan, Benguet, Baguio City, Iloilo, Cebu and Cebu City, Davao City, Davao de Oro, Albay, and Zamboanga City.

On September 11, 2020, Republic Act No. 11494 also known as "Bayanihan to Recover As One" (Bayanihan 2) was signed into law. Section 4(vv) of the said law directs all institutions providing electric services to implement a minimum of thirty day grace period for the payment of utilities falling due within the period of ECQ or Modified Enhanced Community Quarantine (MECQ) without incurring interests, penalties, and other charges, provided that after the grace period, unpaid utility bills may be settled on a staggered basis payable in not less than three (3) monthly installments without interest, penalties and other charges, subject to the rules and regulations to be issued by the regulators.

Thereafter, ERC issued an Advisory dated October 29, 2020 adopting in to Section 4(vv) of Republic Act No. 11494 with an additional directive that certain customers shall not be disconnected "on account of non-payment of bills until December 31, 2020." The Group was particularly directed to extend the same 30-day grace period, staggered payment, and no disconnection.

In 2021, there were few customers that sought the extension of payments of utilities falling due within the period of ECQ or MECQ within their respective franchise area in accordance with Bayanihan 2.

In 2021, there were no changes in assumptions in terms of estimating allowance for impairment losses considering that customers are given four (4) months to pay the deferred power bills until the effectivity of Bayanihan 2 which expires on June 30, 2021.

- 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 impact of the said event is material non-adjusting but does not cast significant doubt on the entity's ability to continue as a going concern.

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

The Group'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 Group:

- Delay in the completion of construction of major projects including:
  - Mindanao Visayas Interconnection Project: Average Delay of nine (9) months and new Estimated Time of Completion (ETC) by December 2021;
  - North Luzon 500kV Backbone Transmission Project: Average Delay of ten (10) months and new ETC by December 2021;
  - Cebu-Negros Panay (CNP) Interconnection Project: Average Delay of eight (8) months and new ETC by December 2022;
  - Integrated Action Plan (IAP) Projects: Average Delay of five (5) months and new ETC for phase one in June 2021 and phase two in June 2022.
- Anticipated under-utilization of Capital Expenditures (CAPEX) of approximately P10 billion due to the suspension and delays in major projects.
- 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 25 August 2020 attended by the Group'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
  
- 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 Group to keep its financial position stable during the crisis, even enabling it to donate P1 billion to the Philippine Government to aid its continuing efforts to help people and communities.

The Group 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.

▪ Donation for COVID-19 Preventive Drive

On April 17, 2020, the Board of Directors of the Group approved the donation to the Government of the Republic of the Philippines (Philippine Government) the amount of P1 billion to assist in the efforts of the Philippine Government in addressing the COVID-19. Of the said P1 billion donation, P500 million shall be in the form of goods and medical equipment. The remaining balance of P500 million from the said P1 billion donation shall be for the procurement of other COVID-19 response measure as may be determined by the Office of the President of the Republic of the Philippines.

The Group distributed goods, medical equipment and other response measures to local government units and Non-stock, non-profit educational and/or charitable, religious, cultural or social welfare corporation, institution, foundation, non-government organization, trust or philanthropic organization and/or research institution or organization amounting to P1 billion as of December 31, 2020 to assist the Philippine Government in addressing the COVID-19. The donation was recognized in the consolidated statements of comprehensive income exclusive of value-added tax.

**APPENDIX 1: LEASED PROPERTIES**

No.	Facility	Description/Location	Duration	Rate	Renewal Terms
<b>ROWD</b>					
1	NLROWD GUIGUINTO PROJECT OFFICE	70 SQM FOR EACH UNIT OF TWO (2) OFFICE SPACE UNITS,	15 MONTHS	₱23,000 (INCLUSIVE OF TAX) / MONTH / UNIT	Renewable for a period of 1 year
		LOCATED AT THE 3RD FLOOR, S - CUBE BUILDING, CAGAYAN VALLEY ROAD, STA. RITA, GUIGUINTO, BULACAN	16 OCT 2020 TO 15 DEC 2021		
2	NLROWD MEYCAUAYA N PROJECT OFFICE	888 SQM RESIDENTIAL BUILDING	1 YEAR	₱57,750.00 (VAT inclusive) / month	Renewable for a period of 1 year
		LOCATED AT BRGY. LIBTONG, MEYCAUAYAN, BULACAN	1 JAN 2021 to 31 DEC 2021		
3	NLROWD HERMOSA PROJECT OFFICE	571 SQM BUNGALOW TYPE RESIDENTIAL UNIT	10 MONTHS AND 17 DAYS	₱45,000.00 (VAT inclusive) / month	On-going request for renewal until dec. 31, 2021.
		LOCATED AT BRGY. BALSIK, HERMOSA, BATAAN	15 OCT 2020 to 31 AUG 2021		
4	VROWD ARGAO PROJECT OFFICE	120 SQM OF FLOOR AREA OF RESIDENTIAL BUILDING AND 316 SQM OF LOT AREA,	1 YEAR AND 2 MONTHS	₱21,053.00 (INCLUSIVE OF TAX) / MONTH	Renewable for a period of 1 year and 2 months
		LOCATED AT BOGO, ARGAO, CEBU	01 NOV 2020 TO 31 DEC 2021		
5	VROWD CBIP - BOHOL SIDE PROJECT OFFICE	88 SQM OF FLOOR AREA OF COMMERCIAL BUILDING AND 369 SQM OF LOT AREA,	10 MONTHS	₱16,843.00 (INCLUSIVE OF TAX) / MONTHLY	Renewable for a period of 10 months
		LOCATED AT BRGY. DELA PAZ, CORTES, BOHOL	01 MAR 2021 TO 31 DEC 2021		
6	VROWD NAGA PROJECT OFFICE	300 SQM FLOOR AREA OF RESIDENTIAL BUILDING AND 800 SQM OF LAND AREA,	1 YEAR AND 2 MONTHS	₱28,948.00 (INCLUSIVE OF TAX) / MONTHLY	Renewable for a period of 1 year and 2 months
		LOCATED AT SITIO TAPON, TINA-AN, CITY OF NAGA, CEBU	01 NOV 2020 TO 31 DEC 2021		
7	VROWD PANAY- GUIMARAS INTERCONNEC TION PROJECT OFFICE	50 SQM FLOOR AREA OF COMMERCIAL BUILDING AND 246 SQM OF LOT AREA,	10 MONTHS	₱21,053.00 (INCLUSIVE OF TAX) / MONTHLY	Renewable for a period of 10 months
		LOCATED AT ALUSIMAN ST., GRAN PLAINS (PHASE II), JARO, ILOILO CITY	01 MAR 2021 TO 31 DEC 2021		
8	VROWD TOLEDO PROJECT OFFICE	68 SQM FLOOR AREA OF RESIDENTIAL BUILDING AND 468 SQM OF LOT AREA,	1 YEAR	₱15,790.00 (INCLUSIVE OF TAX) / MONTHLY	Renewable for a period of 1 year

No.	Facility	Description/Location	Duration	Rate	Renewal Terms
		LOCATED AT DUMLOG, TOLEDO CITY, CEBU	01 JAN 2021 TO 31 DEC 2021		
9	VROWD DALAGUETE PROJECT OFFICE	120 SQM 2BR RESIDENTIAL  Located at Brgy. Solong-on, Tapon, Dalaguete, Cebu	1 YEAR  01 JAN 2021 TO 31 DEC 2021	₱25,000.00 (INCLUSIVE OF TAX) / MONTHLY	Renewable for a period of 6 months
10	MROWD TACURONG- KALAMANSIG PROJECT OFFICE	Pad type residential units with floor area of approximately 26 SQM per standard room (Nos. 5, 6 & 7),  situated at Purok Pag-asa, Poblacion Kulaman, Senator Ninoy Aquino, Sultan Kudarat	22 MONTHS  01 JUN 2021 TO 31 MAR 2023	₱30,000.00 (INCLUSIVE OF TAX) / MONTHLY	Renewable under the same terms and conditions at the option of NGCP.
<b>P&amp;E</b>					
11	NLPD BAGUIO PROJECT OFFICE	165 SQM TWO-STOREY RESIDENTIAL UNIT,  LOCATED AT PETERSVILLE SUBDIVISION, CAMP 7, BAGUIO CITY	1 YEAR  01 JAN 2021 TO 31 DEC 2021	₱30,000.00 (INCLUSIVE OF TAX) / MONTH	Renewable for a period of 1 year
12	NLPD MARIVELES PROJECT OFFICE	500 SQM BUNGALOW TYPE RESIDENTIAL BUILDING,  LOCATED AT SITIO LANGKAAN, MAAP ROAD, BARANGAY ALAS-ASIN, MARIVELES, BATAAN	10 MONTHS  01 JAN 2021 TO 31 OCT 2021	₱18,900.00 (INCLUSIVE OF TAX) / MONTH	Renewable for a period of 6 months
13	NLPD ORANI STOCKYARD (Hermosa-San Jose 500kV TL Project)	2 HECTARES  ROMAN, NATIONAL, HIWAY, BRGY. MULAWIN, ORANI, BATAAN	10 MONTHS  01 JULY 2021 TO 30 APRIL 2021	₱70,000.00 (NON-VAT)/ MONTH	On-going renewal from 01 May 2021 to 21 December 2021
14	SLPD ALFONSO STOCKYARD	19,722 SQM  KAYTITINGA- MAGALLANES RD. BRGY. KAYTITINGA, ALFONSO, CAVITE	1 YEAR  01 JAN 2021 TO 30 SEPT 2021	₱880,000.00 (NON-VAT) / MONTH	Renewable for a minimum of 3 months period
15	SLPD SILANG PROJECT OFFICE (SLPD-A Site Management 2)	RESIDENTIAL  Aguinaldo Highway, Silang, Cavite	15 MONTHS  01 OCT 2021 TO 31 OCT 2022	₱40,000.00 (NON-VAT) / MONTH	With option to renew
16	SLPD DARAGA PROJECT OFFICE (SLPD-B Regional Office)	200 SQM FLOOR AREA (RESIDENTIAL)  Irosin, Sorsogon; Barangays Cale and Naga in Tiwi, Albay	17 MONTHS  01 AUG 2021 TO 31 DEC 2022	₱38,000.00 (NON-VAT) / MONTH	With option to renew
17	MVIPD DUMANJUG PROJECT OFFICE	100 SQM RESIDENTIAL BUILDING  LOCATED IN BRGY. LI-ONG, DUMANJUG, CEBU	1 YEAR  01 JAN 2021 TO 31 DEC 2021	₱12,632.00 (NON-VAT) / MONTH	Renewable for a minimum of 3 months period
18	MVIPD TOLEDO	315 SQM LOT AND 295 SQM FLOOR AREA	1 YEAR		

No.	Facility	Description/Location	Duration	Rate	Renewal Terms
	PROJECT OFFICE	M. Barba St, Poblacion, Toledo Cebu.	01 MAR 2021 TO 31 DEC 2021	₱36,843.00 (NON-VAT) / MONTH	Renewable for a minimum of 3 months period
19	VPD SAN CARLOS PROJECT OFFICE	400 SQM RESIDENTIAL BUILDING	1 YEAR	₱37,800.00 (VAT-EX) / MONTH	Renewable for 1 year
		Calachuhi St. San Julio Subd. San Carlos City, Negros Occidental	01 JAN 2021 TO 31 DEC 2021		
20	VPD ESCALANATE STOCKYARD (OHTL)	56,875 SQM LOT	1 YEAR	₱133,928.57 (VAT-EX) / MONTH	Renewable for 1 year
		Brgy. Jonobjonob, Escalante City, Negros Occidental	01 JAN 2021 TO 31 DEC 2021		
21	VPD ESCALANATE STOCKYARD (CALATRAVA SS)	1,000 SQM LOT	1 YEAR	₱22,000.00 (VAT-EX) / MONTH	Renewable for 1 year
		Escalante City, Negros Occidental	01 JAN 2021 TO 31 DEC 2021		
22	VPD BACOLOD STOCKYARD	1000 SQM LOT	1 YEAR	₱70,000.00 (VAT-EX) / MONTH	Renewable for 1 year
		Brgy. Bata, Bacolod City, Negros Occidental	01 JAN 2021 TO 31 DEC 2021		
23	TEMPORARY WAREHOUSE (ALANG-ALANG)	2,496.81 SQM WAREHOUSE	9 MONTHS	₱424,457.70 (VAT-EX) / MONTH	Not to be extended
		P. BURGOS ST., BRGY. ALANG-ALANG, MANDAUE CITY, CEBU	18 MAR 2021 TO 31 DEC 2021		
24	VPD TALISAY PROJECT OFFICE	500 SQM RESIDENTIAL BUILDING	1 YEAR	₱30,000.00 (VAT-EX) / MONTH	Renewal for 1 year
		Block 10, Lot 14 & 16, Carmella Valley Executive Village, Talisay City, Negros Occidental	01 JAN 2021 TO 31 DEC 2021		
25	VPD CADIZ STOCKYARD	19,871 SQM LOT	2 YEARS AND 9 MONTHS	₱275,000.00 (VAT-EX) / MONTH	With Option to renew.
		Brgy. Tinampaan, Cadiz City, Negros Occidental	10 APR 2021 TO 31 DEC 2023		
<b>SO</b>					
26	LSO Isolation	200 sqm residential townhouse	1 year	₱65,000 (VAT inclusive) / month	Renewable under the same terms and conditions at the option of the Lessee
		Unit H, No. 38 11 <sup>th</sup> Street, New Manila, Quezon City	25 June 2021 to 25 June 2022		
27	LSO Quarantine	200 sqm residential townhouse	1 year	₱70,000 (VAT Inclusive)/ month	Renewable under the same terms and conditions at the option of the Lessee
		Unit H, No. 38 11 <sup>th</sup> Street, New Manila, Quezon City	25 June 2021 to 25 June 2022		
28	VSO Isolation	4 units in a residential building with 96 to 110 sqm per unit	8 months	₱168,000 (VAT inclusive)	Renewable under the same terms and conditions at the option of the Lessee
		Pres. Magsaysay St., Kasambagan, Cebu City	01 May 2021 to 31		

No.	Facility	Description/Location	Duration	Rate	Renewal Terms
			December 2021		
29	VSO Quarantine	3 studio type units in a residential building with 18 to 23 sqm per unit	8 months	₱45,000 (VAT inclusive)	Renewable under the same terms and conditions at the option of the Lessee
		Pres. Magsaysay St., Kasambagan, Cebu City	01 May 2021 to 31 December 2021		
30	MSO Isolation	3 Studio type, each with 24 sqm area residential units	7 months	₱81,000 (VAT inclusive )	Renewable under the same terms and conditions at the option of the Lessee
		Primavera Residences, Uptown, Carmen, CDO City	01 June 2021 to 31 December 2021		
<b>AVIATION</b>					
31	MANILA HANGAR	Located at General Aviation Area, Domestic Airport, Pasay City	1 YEAR	₱74,752.08 (INCLUSIVE OF TAX) / MONTH	Yearly renewal
			01 JAN 2021 TO 31 DEC 2021		
32	MACTAN HANGAR	General Aviation Area, Airport Road, Mactan Cebu International Airport, Lapu-lapu City	5 YEARS	₱146,295.52 (INCLUSIVE OF TAX) / MONTH	Renewal for 5 years
			01 JAN 2021 TO 31 DEC 2025		
<b>O&amp;M</b>					
33	VOM ABUYOG SATELLITE OFFICE	700 SQM 2-STOREY RESIDENTIAL BUILDING	1 YEAR	₱11,000.00 (NON-VAT) / MONTH	Yearly renewal
		LOCATED IN BRGY. CAN-UGUIB, ABUYOG, LEYTE	01 JAN 2021 TO 31 DEC 2021		
34	VOM CATARMAN SATELLITE OFFICE	2-STOREY 4BR RESIDENTIAL BUILDING	1 YEAR	₱15,790.00 (NON-VAT) / MONTH	Yearly renewal
		LOCATED IN BRGY. DALAKIT, CATARMAN, NORTHERN SAMAR	01 JAN 2021 TO 31 DEC 2021		
35	VOM BONTOC SATELLITE OFFICE	2-STOREY 4BR RESIDENTIAL BUILDING	1 YEAR	₱9,000.00 (NON-VAT) / MONTH	Yearly renewal
		LOCATED IN BRGY. STA CRUZ, BONTOC SOUTHERN LEYTE	01 JAN 2021 TO 31 DEC 2021		
36	VOM CARIGARA SATELLITE OFFICE	2,521 sqm 2-STOREY 3BR RESIDENTIAL BUILDING	1 YEAR	₱12,000.00 (NON-VAT) / MONTH	Yearly renewal
		LOCATED IN BRGY. JUGABAN, CARIGARA LEYTE	01 JAN 2021 TO 31 DEC 2021		
37	VOM BORONGAN SATELLITE OFFICE	5,700 SQM 4BR RESIDENTIAL BUILDING	1 YEAR	₱10,500.00 (NON-VAT) / MONTH	Yearly renewal
		LOCATED IN BRGY. SABANG SOUTH, BORONGAN CITY, EASTERN SAMAR	01 JAN 2021 TO 31 DEC 2021		
<b>CSFMD</b>					

No.	Facility	Description/Location	Duration	Rate	Renewal Terms
38	EXTENSION OFFICE VERTIS NORTH QUEZON CITY	1009.85 SQM OFFICE SPACE WITH 12 PARKING SLOTS	5 YEARS	OFFICE SPACE: ₱800.00 (VAT- EX) / MONTH with annual escalation of 5% on the 2nd and 3rd years and 10% on the 4th and 5th years of lease PARKING: ₱3,500.00 (VAT- EX) / MONTH an annual escalation of 5% every 01 January beginning 01 January 2018 COMMON AREA: ₱145.00 (VAT-EX) per month per sqm subject to an annual increase of 5% every 01 January	-
		LOCATED IN VERTIS NORTH, QUEZON CITY	01 OCT 2017 TO 30 SEPT 2022		
39	SMDC PAKING AREA	3000 SQM LOT	6 MONTHS (3rd Renewal)	₱450,000.00 (VAT-EX) / MONTH	Ongoing renewal for september 2021
		LOCATED IN BRGY. PINAHAN QUADRANGLE, QUEZON CITY	01 MAR 2021 TO 31 AUG 2021		

**APPENDIX 2: MATERIAL PERMITS AND LICENSES**

**1. SYNERGY GRID & DEVELOPMENT PHILS., INC.**

<b>Name of License / Permit</b>	<b>Issuing Regulatory Body</b>	<b>License / Permit No.</b>	<b>Issue Date</b>	<b>Expiry Date</b>
Certificate of Registration	Bureau of Internal Revenue	TIN 000-593-240-000	January 28, 1997	N/A (No expiration)
Mayor's Permit	Office of the City Mayor – City Government of Pasig	IN6 21-013909	January 25, 2021	December 31, 2021
Barangay Clearance	Barangay San Antonio, Pasig City	BSA-00048972	January 12, 2021	December 31, 2021
Environmental Permit to Operate	City Environment and Natural Resources Office, Pasig City	17156	January 25, 2021	December 31, 2021
Fire Safety Inspection Certificate	Bureau of Fire Protection, Pasig City Fire Station	16-1392680	October 01, 2020	October 01, 2021
Sanitary Permit to Operate	Office of the City Health Office, Pasig City		February 23, 2021	December 31, 2021
Certificate of Employer's Registration	Pag-IBIG Fund/Home Development Mutual Fund	Employer ID No. 204107530000	January 25, 2013	N/A (No expiration)
Employer Data Change Request	Social Security System	Employer ID No. 03-9020649-1-000	April 1995	N/A (No expiration)
Employer Information	Philippine Health Insurance Corporation	Employer ID No. 001000026566		N/A (No expiration)

## 2. SUBSIDIARIES (including National Grid Corporation of the Philippines)

Name of License / Permit	Issuing Regulatory Body	License / Permit No.	Issue Date	Expiry Date
<b><i>OneTaipan Holdings Inc.</i></b>				
Certificate of Registration	Bureau of Internal Revenue	TIN 007-620-912-000	April 29, 2010	N/A (No expiration)
<b><i>Monte Oro Grid Resources Corporation</i></b>				
Certificate of Registration	Bureau of Internal Revenue	TIN 006-342-902-000	August 17, 2017	N/A (No expiration)
Mayor's Permit	Office of the City Mayor – City Government of Pasig	IN6 21-013908	January 14, 2021	December 31, 2021
Barangay Clearance	Barangay San Antonio, Pasig City	BSA-00037237	January 12, 2021	December 31, 2021
Environmental Permit to Operate	City Environment and Natural Resources Office, Pasig City	06057	January 14, 2021	December 31, 2021
Fire Safety Inspection Certificate	Bureau of Fire Protection, Pasig City Fire Station	16-1387557	July 29, 2020	July 29, 2021 (Renewal in process)
Sanitary Permit to Operate	Office of the City Health Office, Pasig City		February 27, 2021	N/A (No expiration)
Employer Registration	Social Security System	Employer No.: 03-9260000-8	April 29, 2011	N/A (No expiration)
Employer's Data Record	Philippine Health Insurance Corporation	PhilHealth Employer No.: 001000025750	May 2, 2011	N/A (No expiration)
Employer's Data Form	Home Development Mutual Fund	Employer ID No. 202281520000	April 29, 2011	N/A (No expiration)
<b><i>Pacifica21 Holdings, Inc.</i></b>				
Certificate of Registration	Bureau of Internal Revenue	TIN 007-031-228-000	September 18, 2017	N/A (No expiration)
<b><i>Calaca High Power Corporation</i></b>				
Certificate of Registration	Bureau of Internal Revenue	TIN 006-590-571-000	August 17, 2017	N/A (No expiration)
Barangay Clearance	Barangay San Antonio, Pasig City	BSA-00027138	January 12, 2021	December 31, 2021
Environmental Permit to Operate	City Environment and Natural Resources Office, Pasig City	06058	January 14, 2021	December 31, 2021
Fire Safety Inspection Certificate	Bureau of Fire Protection, Pasig City Fire Station	161398353	June 11, 2020	June 11, 2021 (Renewal in process; waiting for BFP feedback)
Sanitary Permit to Operate	Office of the City Health Office, Pasig City		February 27, 2021	December 31, 2021

<b>Name of License / Permit</b>	<b>Issuing Regulatory Body</b>	<b>License / Permit No.</b>	<b>Issue Date</b>	<b>Expiry Date</b>
Employer Registration	Social Security System	Employer No.: 03-9261181-9	May 31, 2011	N/A (No expiration)
Employer's Data Record	Philippine Health Insurance Corporation	PhilHealth Employer No.: 001000025751	April 29, 2011	N/A (No expiration)
Employer's Data Form	Home Development Mutual Fund	Employer ID No. 202241130002	May 18, 2011	N/A (No expiration)
<b><i>National Grid Corporation of the Philippines</i></b>				
<b><i>Head Office</i></b>				
Certificate of Public Convenience and Necessity	ERC	CPCN 09-03	Mar 09, 2009	Dec 01, 2058
Provisional Certificate of Authority as a WESM Metering Service Provider (WMSP)	ERC	N/A	Mar 17, 2021	Mar 22, 2022
Certificate of Registration	BIR	TIN 006-977-514-000	Mar 03, 2008	N/A (No expiration)
Permit to Operate	Quezon City - Business Permits and Licensing Department	09-00371	May 18, 2021	December 31, 2021
Permit to Operate	DENR	18-POA-D-137404-834	Apr 20, 2018	Aug 01, 2018 (Application filed with the DENR in Aug 2018. Order of Payment from DENR for the renewal received by NGCP on Sep 06, 2021)
PCO Accreditation	DENR	2017-NCR-0875	May 09, 2017	May 09, 2020 (Online renewal application filed on Jul 04, 2021; under evaluation of EMB)
Online Hazwaste Generator Registration	Department of Environment and Natural Resources (DENR)	OL-GR-NCR-74-008035	Nov 24, 2020	N/A (No expiration)
Online PCB Registration	DENR	CCO-PCB-RNCR-NAT-126	Jan 15, 2018	N/A (No expiration)
Certificate of Non-Coverage (CNC)	DENR	NCR-2003-08-01-219-216	Aug 01, 2003	N/A (No expiration)
<b><i>National Capital Region (Dona Imelda (Araneta) SS)</i></b>				
Permit to Operate	DENR	PTO-OL-NCR-2020-00327-R	Aug 05, 2020	Aug 05, 2025
Permit to Operate	DENR	PTO-OL-NCR-2021-03351	May 25, 2021	Aug. 25, 2021 (Renewal is in process; submitted online renewal application on Aug 4, 2021)

Name of License / Permit	Issuing Regulatory Body	License / Permit No.	Issue Date	Expiry Date
Online Hazwaste Generator Registration	DENR	OL-GR-NCR-74-007149	Dec 16, 2020	N/A (No expiration)
Online PCB Registration	DENR	CCO-PCB-RNCR-NAT-73	Jan 04, 2016	N/A (No expiration)
<i>National Capital Region (Quezon (Balintawak) SS)</i>				
Permit to Operate	DENR	17-POA-L-137404-931	Jan 25, 2018	Dec 27, 2022
Permit to Operate	DENR	PTO-OL-NCR-2021-03882	Jun 07, 2021	Aug 07, 2021 (Online renewal application filed on Aug 04, 2021; under evaluation of EMB)
Online Hazwaste Generator Registration	DENR	OL-GR-NCR-74-006831	Dec 16, 2021	N/A (No expiration)
Online PCB Registration	DENR	CCO-PCB-RNCR-NAT-74	Jan. 04, 2016	N/A (No expiration)
<i>National Capital Region (Las Pinas SS)</i>				
Permit to Operate	DENR	PTO-OL-NCR-2020-01574-R	Oct 12, 2020	Oct 12, 2025
Permit to Operate	DENR	PTO-OL-NCR-2020-01967	Oct 30, 2020	Oct 30, 2025
Hazwaste Generator ID Registration	DENR	GR-R-76-01128	Oct 27, 2017	N/A (No expiration)
Online PCB Registration	DENR	CCO-PCB-RNCR-NAT-75	Jan. 11, 2016	N/A (No expiration)
<i>National Capital Region (Muntinlupa SS)</i>				
Permit to Operate	DENR	19-POA-K-137604-202	Jan 14, 2020	Nov. 17, 2024
Hazwaste Generator ID Registration	DENR	GR-13-76-0705	Aug 13, 2012	N/A (No expiration)
Online PCB Registration	DENR	CCO-PCB-RNCR-NAT-72	Jan. 11, 2016	N/A (No expiration)
<i>National Capital Region (San Jose SS)</i>				
Permit to Operate	DENR	FLA-19L-03BU-980	Oct. 17, 2019	Dec. 30, 2024
Permit to Operate	DENR	PTO-OL-Region III-2021-00469	Jan. 27, 2021	Jan. 27, 2026
Online Hazwaste Generator Registration	DENR	OL-GR-R3-14-005266	Oct. 28, 2020	N/A (No expiration)
Online PCB Registration	DENR	CCO-PCB-R3-NAT-27	Dec. 16, 2015	N/A (No expiration)
NWRB Permit	National Water Resources Board (NWRB)	022775	Jan. 23, 2013	N/A (No expiration)
<i>National Capital Region (Angat RS)</i>				
Permit to Operate	DENR	FLA-19J-03BU-994	Oct 24, 2019	Oct 30, 2024
Online Hazwaste Generator Registration	DENR	OL-GR-R3-14-006919	Dec 15, 2020	N/A (No expiration)

Name of License / Permit	Issuing Regulatory Body	License / Permit No.	Issue Date	Expiry Date
<i>National Capital Region (Malaya SS)</i>				
Permit to Operate	DENR	2018-POA-0458-227	Jun 11, 2018	Jun 01, 2023
Permit to Operate	DENR	PTO-OL-R4A-2021-02891-T	May 10, 2021	May 10, 2022
Online Hazwaste Generator Registration	DENR	OL-GR-R4A-58-013206	Apr 19, 2021	N/A (No expiration)
Online PCB Registration	DENR	CCO-PCB-R4A-NAT-38	Feb 02, 2016	N/A (No expiration)
<i>National Capital Region (Taytay SS)</i>				
Permit to Operate	DENR	2018-POA-0458-226	Jun 13, 2018	Jun 07, 2023
Permit to Operate	DENR	PTO-OL-R4A-2021-01767-R	Mar 21, 2021	Mar 21, 2026
Online Hazwaste Generator Registration	DENR	OL-GR-R4A-58-006340	Dec. 17, 2020	N/A (No expiration)
Online PCB Registration	DENR	CCO-PCB-R4A-NAT-36	Feb. 02, 2016	N/A (No expiration)
NWRB Permit	NWRB	022876	Apr. 15, 2013	N/A (No expiration)
<i>National Capital Region (San Mateo RS)</i>				
Permit to Operate	DENR	2018-POA-0458-254	Jun 11, 2018	Jun 01, 2023
Permit to Operate	DENR	PTO-OL-R4A-2021-02277-T	Apr 16, 2021	Apr 16, 2022
Online Hazwaste Generator Registration	DENR	OL-GR-R4A-58-011077	Apr 19, 2021	N/A (No expiration)
<i>North Luzon (Bauang Substation)</i>				
Online Hazwaste Generator Registration	DENR	OL-GR-R1-33-006909	Jan 11, 2020	N/A (No expiration)
Online PCB Registration	DENR	CCO-PCB-R1-NGC-28	Nov 14, 2016	N/A (No expiration)
Permit to Operate	DENR	PTO-OL-R01-2021-04167-R	Feb 19, 2021	Jun 12, 2026
NWRB Permit	NWRB	WP 21925	Jan 26, 2010	Dec 31, 2030
<i>North Luzon (Bacnotan Substation)</i>				
Online Hazwaste Generator Registration	DENR	OL-GR-R1-33-006888	Oct 29, 2020	N/A (No expiration)
Online PCB Registration	DENR	CCO-PCB-R1-NGC-26	Nov 14, 2016	N/A (No expiration)
Permit to Operate	DENR	PTO-OL-R01-2021-01072-R	Feb 19, 2021	Oct 19, 2022
NWRB Permit	NWRB	WP 21924	Jan 26, 2010	Dec 31, 2030
<i>North Luzon (San Esteban Substation)</i>				
Online Hazwaste Generator Registration	DENR	OL-GR-R1-29-005301	Sep 18, 2020	N/A (No expiration)
Online PCB Registration	DENR	CCO-PCB-R1-NGC-31	Nov 14, 2016	N/A (No expiration)
Permit to Operate	DENR	PTO-OL-R01-2021-04229-R	Jun 15, 2021	Jun 15, 2026

<b>Name of License / Permit</b>	<b>Issuing Regulatory Body</b>	<b>License / Permit No.</b>	<b>Issue Date</b>	<b>Expiry Date</b>
NWRB Permit	NWRB	WP 23746	Jan 26, 2010	Dec 31, 2030
<i>North Luzon (Bantay Substation)</i>				
Online Hazwaste Generator Registration	DENR	OL-GR-R1-28-010665	Dec 31, 2020	N/A (No expiration)
Online PCB Registration	DENR	CCO-PCB-R1-NGC-27	Nov 14, 2016	N/A (No expiration)
Permit to Operate	DENR	PTO-OL-R01-2021-04166-R	Jun 12, 2021	Jun 12, 2026
NWRB Permit	NWRB	Application No. 1-ILS-2010-08-046	In process	Still Ongoing NWRB process
<i>North Luzon (Currimaos Substation)</i>				
Online Hazwaste Generator Registration	DENR	OL-GR-R1-28-010695	Dec 31, 2020	N/A (No expiration)
Online PCB Registration	DENR	CCO-PCB-R1-NGC-29	Nov 14, 2016	N/A (No expiration)
Permit to Operate	DENR	POA-17J-O1IN06-009	Feb 7, 2018	Oct 27, 2022
NWRB Permit	NWRB	WP 23412	Jun 17, 2015	Dec 31, 2030
<i>North Luzon (Laoag Substation)</i>				
Online Hazwaste Generator Registration	DENR	OL-GR-R1-28-001523	Jul 27, 2020	N/A (No expiration)
Online PCB Registration	DENR	CCO-PCB-R1-NGC-30	Nov 14, 2016	N/A (No expiration)
Permit to Operate	DENR	POA-17K-O1IN23-126	Dec 29, 2017	Oct 07, 2022
NWRB Permit	NWRB	WP 22742	Dec 04, 2012	Dec 31, 2030
NWRB Permit	NWRB	WP 23448	Dec 04, 2012	Dec 31, 2030
<i>North Luzon (La Trinidad Substation)</i>				
Chainsaw Permit	DENR	CAR-BG0-13-2020	Mar 13, 2018	N/A (Exempted per RA 11361)
Chainsaw Permit	DENR	CAR-BG0-12-2020	Mar 13, 2018	N/A (Exempted per RA 11361)
Chainsaw Permit	DENR	CAR-BG0-19-71	Dec 05, 2019	N/A (Exempted per RA 11361)
Chainsaw Permit	DENR	CAR-BG0-19-72	Dec 05, 2019	N/A (Exempted per RA 11361)
Chainsaw Permit	DENR	CAR-BG0-19-35	Apr 25, 2019	N/A (Exempted per RA 11361)
Chainsaw Permit	DENR	CAR-BG0-19-34	Apr 25, 2019	N/A (Exempted per RA 11361)
Chainsaw Permit	DENR	CAR-BG0-19-51	Aug 01, 2019	N/A (Exempted per RA 11361)
Chainsaw Permit	DENR	CAR-BGO-19-50	Aug 17, 2019	N/A (Exempted per RA 11361)
Chainsaw Permit	DENR	CAR-BG0-19-49	Aug 01, 2019	N/A (Exempted per RA 11361)
CNC	DENR	CNC-CO-1112-011	Dec 20, 2011	N/A (No expiration)
CNC	DENR	CAR-0909-178-9999	Oct 05, 2009	N/A (No expiration)

Name of License / Permit	Issuing Regulatory Body	License / Permit No.	Issue Date	Expiry Date
NWRB Permit	NWRB	22308	Apr. 27, 2011	N/A (No expiration)
Online Hazwaste Generator Registration	DENR	GR-CAR-11-00009	Sep 29, 2015	N/A (No expiration)
Online PCB Registration	DENR	CCO-PCB-RCAR-NAT-38	Jun 22, 2016	N/A (No expiration)
PCO Accreditation	DENR	COA-2019-CAR-020	Mar 19, 2019	Ongoing renewal; Fees for renewal paid and pending PCO training
Permit to Operate	DENR	2016-POA-I-141109-472	Sep 29, 2016	Sep 28, 2021 (Ongoing DENR renewal process;for issuance of PTO)
Permit to Operate	DENR	PTO-OL-CAR-2020-00831-R	Feb 16, 2020	Sep 12, 2025
Wastewater Discharge Permit	DENR	DP-CAR-21-04000	Jul 05, 2021	Jun 14, 2022
Wastewater Discharge Permit	DENR	DP-CAR-21-04004	Jul 05, 2021	Jun 14, 2022
Wastewater Discharge Permit	DENR	DP-CAR-21-03999	Jul 05, 2021	Jun 14, 2022
Wastewater Discharge Permit	DENR	DP-CAR-21-02485	Apr 29, 2021	May 06, 2022
Online Hazwaste Generator Registration	DENR	OL-GR-CAR-11-002694	Sep 05, 2020	N/A (No expiration)
<i>North Luzon (Itogon Substation)</i>				
CNC	DENR	CNC-OL-CAR-2019-02-0075	Feb 28, 2019	N/A (No expiration)
Online PCB Registration	DENR	CCO-PCB-RCAR-NAT-37	Jun 22, 2016	N/A (No expiration)
PCO Accreditation	DENR	COA-2019-CAR-020	Mar 20, 2019	Ongoing renewal; Fees for renewal paid and pending PCO training
Permit to Operate	DENR	2007-POA-D-141105-925	May 03, 2019	Apr 29, 2024
Online Hazwaste Generator Registration	DENR	OL-GR-CAR-11-006866	Apr 16, 2021	N/A (No expiration)
<i>North Luzon (Binga Substation)</i>				
CNC	DENR	CNC-CO-1004-0005	Apr 19, 2010	N/A (No expiration)
Online PCB Registration	DENR	CCO-PCB-RCAR-NAT-36	Jun 22, 2016	N/A (No expiration)
PCO Accreditation	DENR	COA-2019-CAR-020	Mar 20, 2019	Ongoing renewal; fees for renewal paid and pending PCO training
Wastewater Discharge Permit	DENR	DP-CAR-21-04002	Jul 05, 2021	Jun 14, 2022
Wastewater Discharge Permit	DENR	DP-CAR-21-02484	Apr 29, 2021	May 16, 2022
Wastewater Discharge Permit	DENR	DP-CAR-21-04200	Jul 12, 2021	Jun 14, 2022
Wastewater Discharge Permit	DENR	DP-CAR-21-02480	May 16, 2021	May 16, 2022

Name of License / Permit	Issuing Regulatory Body	License / Permit No.	Issue Date	Expiry Date
Wastewater Discharge Permit	DENR	DP-CAR-21-02486	May 16, 2021	May 16, 2022
Wastewater Discharge Permit	DENR	DP-CAR-21-04005	Jun 14, 2021	Jun 14, 2022
Online Hazwaste Generator Registration	DENR	OL-GR-CAR-11-010006	Nov 17, 2020	N/A (No expiration)
<i>North Luzon (Beckel Substation)</i>				
CNC	DENR	CNC-OL-CAR-2016-05-05419	May 11, 2016	N/A (No expiration)
NWRB Permit	NWRB	23709	Jan. 22, 2016	N/A (No expiration)
NWRB Permit	NWRB	22307	Apr. 27, 2011	N/A (No expiration)
Online PCB Registration	DENR	CCO-PCB-RCAR-NAT-35	Jun 22, 2016	N/A (No expiration)
PCO Accreditation	DENR	COA-2019-CAR-020	Mar 20, 2019	Ongoing renewal; fees for renewal paid and pending PCO training
Wastewater Discharge Permit	DENR	DP-CAR-21-02483	Apr 29, 2021	Jun 15, 2022
Wastewater Discharge Permit	DENR	DP-CAR-21-04001	Jul 05, 2021	Jun 15, 2022
Wastewater Discharge Permit	DENR	DP-CAR-21-03997	Jul 05, 2021	Jun 15, 2022
Wastewater Discharge Permit	DENR	DP-CAR-21-04003	Jul 05, 2021	Jun 15, 2022
Wastewater Discharge Permit	DENR	DP-CAR-21-03998	Jul 05, 2021	Jun 15, 2022
Online Hazwaste Generator Registration	DENR	OL-GR-CAR-11-007206	Oct 19, 2020	N/A (No expiration)
<i>North Luzon (Ambuklao Substation)</i>				
CNC	DENR	CNC-CO-1112-0012	Dec 20, 2011	N/A (No expiration)
Online PCB Registration	DENR	CCO-PCB-RCAR-NAT-34	Jun 22, 2016	N/A (No expiration)
PCO Accreditation	DENR	COA-2019-CAR-020	Mar 20, 2019	Ongoing renewal; fees for renewal paid and pending PCO training
Permit to Operate	DENR	2016-POA-I-141103-473	Sep 29, 2016	Sep 28, 2021 (Ongoing DENR renewal process for issuance of PTO)
Permit to Operate	DENR	PTO-OL-CAR-2020-00703-R	Sep 21, 2015	Sep 05, 2025
Wastewater Discharge Permit	DENR	DP-CAR-21-04201	Jul 12, 2020	Jun 14, 2022
Wastewater Discharge Permit	DENR	DP-CAR-21-02512	Apr 29, 2021	May 16, 2022
Online Hazwaste Generator Registration	DENR	OL-GR-CAR-11-006158	Oct 15, 2021	N/A (No expiration)
<i>North Luzon (Ampucao Repeater Station)</i>				
CNC	DENR	-	Nov 23, 1997	N/A (No expiration)

Name of License / Permit	Issuing Regulatory Body	License / Permit No.	Issue Date	Expiry Date
CNC	DENR	-	Jan 23, 1997	N/A (No expiration)
PCO Accreditation	DENR	COA-2019-CAR-020	Mar 20, 2019	Ongoing renewal; fees for renewal paid and pending PCO training
Permit to Operate	DENR	2014-POA-B-141105-028	Jan 21, 2020	Feb 16, 2025
Permit to Operate	DENR	2006-POA-141105-417	Jul 13, 2017	Jul 27, 2022
Wastewater Discharge Permit	DENR	DP-CAR-19-04106	Nov 29, 2020	Dec 06, 2021 (Ongoing renewal; ongoing preparation of Purchase Requisition for siphoning services to comply with permit renewal requirement.)
Online Hazwaste Generator Registration	DENR	OL-GR-CAR-11-011299	Feb 18, 2021	N/A (No expiration)
<i>North Luzon (La Trinidad-Lamut Double Circle Substation)</i>				
CNC	DENR	CAR-0909-179-9999	Oct 05, 2009	N/A (No expiration)
<i>North Luzon (Northern Luzon ACC)</i>				
CNC	DENR	CAR-0909-180-9999	Oct 05, 2009	N/A (No expiration)
Online PCB Registration	DENR	CCO-PCB-RCAR-NLA-56	May 27, 2019	N/A (No expiration)
PCO Accreditation	DENR	COA-2019-CAR-020	Mar 20, 2019	Ongoing renewal; fees for renewal paid and pending PCO training
Permit to Operate	DENR	2013-POA-J-141109-181	Oct 27, 2016	Oct 26, 2021
Online Hazwaste Generator Registration	DENR	OL-GR-CAR-11-011356	Mar 01, 2021	N/A (No expiration)
<i>North Luzon (Binga Hep Switchyard Expansion)</i>				
ECC	DENR	CAR-O-0303-030-9999	Apr 27, 2009	N/A (No expiration)
CNC Amendment	DENR	CNC-CO-1004-0005	May 19, 2010	N/A (No expiration)
Permit to Operate	DENR	2005-POA-C-141105-686	Mar 07, 2017	Mar 04, 2025
<i>North Luzon (Cabuyao Repeater Station)</i>				
ECC Amendment	DENR	CAR 9803-025-9999	Apr 27, 2009	N/A (No expiration)
PCO Accreditation	DENR	COA-2019-CAR-020	Mar 20, 2019	Ongoing renewal; fees for renewal paid and pending PCO training
Permit to Operate	DENR	PTO-OL-CAR-2020-02186-R	Nov 16, 2015	Nov 05, 2025
Permit to Operate	DENR	2018-POA-K-141112-815	Nov 09, 2019	Nov 08, 2024
Wastewater Discharge Permit	DENR	DP-CAR-19-04107	Nov 29, 2020	Dec 06, 2021 (Renewal is in process; ongoing preparation of Purchase Requisition for siphoning services to comply with permit renewal requirement.)
Online Hazwaste Generator Registration	DENR	OL-GR-CAR-11-011357	Dec02, 2021	N/A (No expiration)
<i>North Luzon (Tuba Repeater Station)</i>				

<b>Name of License / Permit</b>	<b>Issuing Regulatory Body</b>	<b>License / Permit No.</b>	<b>Issue Date</b>	<b>Expiry Date</b>
Forest Land Use Agreement	DENR	-	In process	For FLA conversion; ongoing coordination with DENR
<i>North Luzon (NL District 2)</i>				
Special Tree Cutting Permit	DENR	-	N/A	N/A (No expiration)
<i>North Luzon (District 3 Facilities)</i>				
PCO Accreditation	DENR	PCO1-06272018-2662	Jun 27, 2018	Jun 26, 2021 (Renewal is in process; fees for renewal paid and pending PCO training)
<i>North Luzon (Labrador Substation)</i>				
Online PCB Registration	DENR	CCO-PCB-R1-NGC-36	March 21, 2016	N/A (No expiration)
Online Hazwaste Generator Registration	DENR	OL-GR-R1-55-005275	Sept. 18, 2020	N/A (No expiration)
NWRB Permit	NWRB	-	N/A	N/A (No expiration)
ECC Amendment	DENR	-	N/A	N/A (No expiration)
Permit to Operate	DENR	POA-15K-01PA20-012	Dec 31 2020	Dec 31 2025
<i>North Luzon (Nagsaag Substation)</i>				
Online PCB Registration	DENR	CCO-PCB-R1-NGC-37	March 21, 2016	N/A (No expiration)
Online Hazwaste Generator Registration	DENR	-	In process	Target completion of registration is on or before December 2021.
NWRB Permit	NWRB	-		N/A (No expiration)
CNC	DENR	CNC-RO1-1208-0008	Aug 10, 2012	N/A (No expiration)
CNC	DENR	CNC-OL-RO1-2015-05-00887	May 07, 2015	N/A (No expiration)
<i>North Luzon (Bolo Substation)</i>				
Online Hazwaste Generator Registration	DENR	-	In process	Target completion of registration is on or before December 2021.
NWRB Permit	NWRB	-		N/A (No expiration)
Permit to Operate	DENR	PTO-OL-R01-2020-03275-R	Dec 31 2020	Dec 31, 2025
<i>North Luzon (San Manuel Substation)</i>				
Online Hazwaste Generator Registration	DENR	OL-GR-R1-55-004782	September 11, 2020	N/A (No expiration)
NWRB Permit	NWRB	-		N/A (No expiration)
Chainsaw Permit	DENR	CCR No. CURD-2019-571/572/573	Sep 09, 2019	N/A (Exempted per RA 11361)
Permit to Operate	DENR	PTO-OL-R01-2020-03276-R	Jan 22, 2016	Dec 31, 2025
Permit to Operate	DENR	PTO-OL-R01-2020-03276-R	Dec 31 2020	Dec 31, 2025
<i>North Luzon (San Isidro Repeater Substation)</i>				
Special Land Use Permit	DENR	-	N/A	For conversion to Forest Land use Agreement; ongoing coordination with LGU for endorsement to DENR.

<b>Name of License / Permit</b>	<b>Issuing Regulatory Body</b>	<b>License / Permit No.</b>	<b>Issue Date</b>	<b>Expiry Date</b>
ECC Amendment	DENR	ECC-97L-PA-R1-125	Aug 26, 2009	N/A (No expiration)
ECC	DENR	ECC-97L-PA-RI-125	Dec 18, 1997	N/A (No expiration)
<i>North Luzon (Dasol Repeater Substation)</i>				
Special Land Use Permit	DENR	-	N/A	Conversion to FLAg filed with DENR Region 1
ECC Amendment	DENR	ECC-97L-PA-R1-125	Aug 26, 2009	N/A (No expiration)
ECC	DENR	ECC-97L-PA-R1-125	Dec 18, 1997	N/A (No expiration)
Permit to Operate	DENR	POA-16G-01PA18-006	Mar 28, 2019	Jul 17, 2021 (Filed manual application prior to expiration; Online re-application with new DENR requirements filed on Aug 25, 2021; under DENR evaluation)
<i>North Luzon (Balingueo Substation)</i>				
ECC	DENR	ECC-RO1-1309-0159	Oct 10, 2013	N/A (No expiration)
<i>North Luzon (Kadampat Substation)</i>				
CNC	DENR	0903-002-4533	Mar 03, 2009	N/A (No expiration)
<i>North Luzon (Bayombong Substation)</i>				
Online Hazwaste Generator Registration	DENR	OL-GR-R2-50-007709	Apr 12, 2020	N/A (No expiration)
Online PCB Registration	DENR	CCO-PCB-R2-NGC-14	Apr 27, 2017	N/A (No expiration)
Permit to Operate	DENR	PTO-OL-R02-2021-02964-R	May 12, 2021	May 12, 2026
Permit to Operate	DENR	2019-POA-C-0250E-071	Aug 05, 2017	Aug 05, 2022
Wastewater Discharge Permit	DENR	DP-R02-20-02161	Jun 08, 2020	Jun 07, 2024
<i>North Luzon (Gamau Substation)</i>				
Online Hazwaste Generator Registration	DENR	OL-GR-R2-31-004960	Nov 20, 2020	N/A (No expiration)
Online PCB Registration	DENR	CCO-PCB-R2-NGC-12	Apr 19, 2017	N/A (No expiration)
Permit to Operate	DENR	PTO-OL-R02-2021-01943	Mar 29, 2021	Mar 29, 2026
Wastewater Discharge Permit	DENR	DP-R02-20-03980	Jun 8, 2010	Dec 31, 2030
<i>North Luzon (Santiago Substation)</i>				
Online Hazwaste Generator Registration	DENR	OL-GR-R2-31-004174	Nov 24, 2020	N/A (No expiration)
Online PCB Registration	DENR	CCO-PCB-R2-NGC-11	Jun 19, 2017	N/A (No expiration)
Permit to Operate	DENR	PTO-OL-R02-2021-02963R	May 12, 2021	May 12, 2026
Permit to Operate	DENR	PTO-OL-R02-2021-01946r	Mar 29, 2021	Mar 29, 2026
Permit to Operate	DENR	2017-POA-B-0215CC-0119	Feb 20, 2017	Feb 20, 2022

Name of License / Permit	Issuing Regulatory Body	License / Permit No.	Issue Date	Expiry Date
Wastewater Discharge Permit	DENR	DP R02 2003981	Sep 14, 2020	Sep 14, 2024
<i>North Luzon (Tuguegarao Substation)</i>				
Online Hazwaste Generator Registration	DENR	OL-GR-R2- 15-007532	Nov 24, 2020	N/A (No expiration)
Online PCB Registration	DENR	CCO-PCB- R2-NGC-13	Apr 20, 2017	N/A (No expiration)
Permit to Operate	DENR	017-POA-B- 0251CC-450	Feb 20, 2017	Feb 20, 2022
Permit to Operate	DENR	PTO-OL-R02- 2021-01942-R	Mar 29, 2021	Mar 29, 2026
Permit to Operate	DENR	PTO-OL-R02- 2021-02052-R	Apr 06, 2021	Apr 06, 2026
Wastewater Discharge Permit	DENR	DP-R02- 2005653	Nov 24, 2020	Nov 24, 2024
<i>North Luzon (Iligan LO)</i>				
Online Hazwaste Generator Registration	DENR	OL-GR-R2- 31-004686	Dec 16, 2020	N/A (No expiration)
Online PCB Registration	DENR	CCO-PCB- R2-NGC-15	Apr 20, 2017	N/A (No expiration)
Permit to Operate	DENR	2019-POA-K- 0231N-019	Oct 02, 2019	Nov 12, 2023
Wastewater Discharge Permit	DENR	DP-R02-20- 05652	Nov 24, 2020	Nov 24, 2024
<i>North Luzon (Iligan RS)</i>				
Permit to Operate	DENR	2020-POA-K- 0231N-019	Feb 26, 2020	Nov 12, 2023
Permit to Operate	DENR	PTO-OL- RegionII 2021-0556-R	May 02, 2021	May 02, 2026
<i>North Luzon (Lagawe LO)</i>				
Online Hazwaste Generator Registration	DENR	GR-CAR-27- 00002	Mar 29, 2017	N/A (No expiration)
Online PCB Registration	DENR	CCO-PCB- RCAR-NGC- 53	Jul 23, 2018	N/A (No expiration)
Permit to Operate	DENR	PTO-OL- CAR-2020- 02917	Dec 12, 2020	Dec 12, 2021
Wastewater Discharge Permit	DENR	DP-CAR-21- 04991	Aug. 9, 2021	Aug. 9, 2022
<i>North Luzon (Ramon RS)</i>				
Online Hazwaste Generator Registration	DENR	02-31-00094	Jul 23, 2007	N/A (No expiration)
Online PCB Registration	DENR	-	N/A	N/A
Permit to Operate	DENR	PTO-OL- Region II 2021-00655	Feb 05, 2021	Feb 05, 2026
Permit to Operate	DENR	PT0-2019- POA-K- 0231W-019	Aug 22, 2019	Nov 12, 2023
Wastewater Discharge Permit	DENR	-	In process	For preparation of Plans and Drawings. Target completion of

Name of License / Permit	Issuing Regulatory Body	License / Permit No.	Issue Date	Expiry Date
				registration is on or before December 2022
<i>North Luzon (Enrile RS)</i>				
Online Hazwaste Generator Registration	DENR	02-15-0038	Jul 13, 2007	N/A (No expiration)
Online PCB Registration	DENR	-	N/A	N/A (No expiration)
Permit to Operate	DENR	PTO-OL-RegionII2021-00643	Feb 05, 2021	Feb 05, 2023
Permit to Operate	DENR	2019-POA-J-0215L-022	Sep 13, 2019	Oct 16, 2023
Wastewater Discharge Permit	DENR	-	In process	For preparation of Plans and Drawings. Target completion of registration is on or before December 2022
<i>North Luzon (Botolan Substation)</i>				
Hazwaste Generator ID Registration	DENR	GR-R3-71-00041	Mar 1, 2017	N/A (No expiration)
Online PCB Registration	DENR	CCO-PCB-R3-NAT-35	Jan 18, 2016	N/A (No expiration)
Permit to Operate	DENR	POA-15D-03ZA-866	Apr 2, 2015	Apr 30, 2018 (Filed manual application prior to expiration; Online renewal application with new DENR requirements filed on Apr 20, 2021; under DENR evaluation)
NWRB Permit	NWRB	23663	Mar 18, 2015	N/A (No expiration)
<i>North Luzon (Hermosa Substation)</i>				
Hazwaste Generator ID Registration	DENR	OL-GR-R3-08-005288	Oct 28, 2020	N/A (No expiration)
Online PCB Registration	DENR	CCO-PCB-R3-NAT-36	Jan 18, 2016	N/A (No expiration)
DENR	Permit to Operate	POA-15D-03BA-981	Apr 15, 2015	Apr 30, 2018 (Generator set transferred to Subic; Filed manual application prior to expiration; Ongoing preparation of new DENR requirements. Target online application is on Sep 20, 2021)
NWRB	NWRB Permit	02-21-18-064	Mar 19, 2019	N/A (No expiration)
<i>North Luzon (Lamao Substation)</i>				
Hazwaste Generator ID Registration	DENR	-	In process	Target completion of registration is on or before December 2021.
Online PCB Registration	DENR	-	In process	Target completion of registration is on or before December 2021.
<i>North Luzon (Limay Substation)</i>				
Hazwaste Generator ID Registration	DENR	GR-R3-08-00047	Mar 1, 2017	N/A (No expiration)
Online PCB Registration	DENR	CCO-PCB-R3-NAT-33	Jan 18, 2016	N/A (No expiration)

Name of License / Permit	Issuing Regulatory Body	License / Permit No.	Issue Date	Expiry Date
Permit to Operate	DENR	POA-15D-03BA-980	Apr 15, 2015	Apr 30, 2018 (Filed manual application prior to expiration; Online application with new DENR requirements filed on Sep 13, 2021; under DENR evaluation)
NWRB Permit	NWRB	23744	Feb 15, 2015	N/A (No expiration)
<i>North Luzon (BCCPP Substation)</i>				
Hazwaste Generator ID Registration	DENR	-	In process	Target completion of registration is on or before December 2021.
Online PCB Registration	DENR	-	In process	Target completion of registration is on or before December 2021.
Permit to Operate	DENR	POA-15D-03BA-980	Apr 15, 2015	Apr 30, 2018 (Filed manual application prior to expiration; Online application with new DENR requirements filed on Sep 14, 2021; under DENR evaluation)
<i>North Luzon (Hill 399 RS)</i>				
Hazwaste Generator ID Registration	DENR	-	In process	Target completion of registration is on or before December 2021.
Online PCB Registration	DENR	-	In process	Target completion of registration is on or before December 2021.
<i>North Luzon (Olongapo Substation)</i>				
Hazwaste Generator ID Registration	DENR	GR-R3-71-00042	Mar 1, 2017	N/A (No expiration)
Online PCB Registration	DENR	CCO-PCB-R3-NAT-34	Jan 18, 2016	N/A (No expiration)
Permit to Operate	DENR	POA-15D-03ZA-867	Jan 4, 2015	Apr 30, 2018 (Filed manual application prior to expiration; Online application with new DENR requirements filed on Sep 14, 2021; under DENR evaluation)
NWRB Permit	NWRB	22690	Dec 15, 2011	N/A (No expiration)
<i>North Luzon (Palauig RS)</i>				
Hazwaste Generator ID Registration	DENR	-	In process	Target completion of registration is on or before December 2021.
Online PCB Registration	DENR	-	In process	Target completion of registration is on or before December 2021.
<i>North Luzon (Subic Substation)</i>				
Hazwaste Generator ID Registration	DENR	-	In process	Target completion of registration is on or before December 2021.
Online PCB Registration	DENR	-	In process	Target completion of registration is on or before December 2021.
<i>North Luzon (Subic Substation)</i>				
Hazwaste Generator ID Registration	DENR	-	In process	Target completion of registration is on or before December 2021.
Online PCB Registration	DENR	-	In process	Target completion of registration is on or before December 2021.
<i>North Luzon (District 5 Facilities)</i>				

Name of License / Permit	Issuing Regulatory Body	License / Permit No.	Issue Date	Expiry Date
PCO Accreditation	DENR	COA NO. 2020B-03PA-0162	Feb 14, 2020	Feb 14, 2023
<i>North Luzon (Cabanatuan Substation)</i>				
Online Hazwaste Generator Registration	DENR	OL-GR-R3-49-001531	Sep 18, 2020	N/A (No expiration)
Online PCB Registration	DENR	CCO-PCB-R3-NAT-37	Jan 18, 2016	N/A (No expiration)
Permit to Operate	DENR	FLA-17D-03NE-159	Mar 30, 2017	Apr 30, 2022
Permit to Operate	DENR	PTO-OL-R03-2021-00224	Jan 15, 2021	Jan 15, 2026
Wastewater Discharge Permit	DENR	-	In process	For preparation of Plans and Drawings. Target completion of registration is on or before December 2022
<i>North Luzon (Concepcion Substation)</i>				
Online Hazwaste Generator Registration	DENR	OL-GR-R3-69-005171	Oct 29, 2020	N/A (No expiration)
Online PCB Registration	DENR	CCO-PCB-R3-NAT-44	Sep 02, 2016	N/A (No expiration)
Permit to Operate	DENR	FLA-16J-03TA-023	Sep 16, 2016	Oct 30, 2021
Wastewater Discharge Permit	DENR	-	In process	For preparation of Plans and Drawings. Target completion of registration is on or before December 2022
<i>North Luzon (Cuyapo RS)</i>				
Online Hazwaste Generator Registration	DENR	OL-GR-R3-49-007029	Dec 28, 2020	N/A (No expiration)
Permit to Operate	DENR	FLA-20A-03NE-348	Dec 20, 2019	Jan 30, 2025
<i>North Luzon (Mexico Substation)</i>				
Online Hazwaste Generator Registration	DENR	OL-GR-R3-54-006208	Oct 29, 2020	N/A (No expiration)
Online PCB Registration	DENR	CCO-PCB-R3-NAT-38	Jan 18, 2016	N/A (No expiration)
Permit to Operate	DENR	FLA-16J-03PA-019	Sep 16, 2016	Oct 30, 2021
Permit to Operate (MTDB)	DENR	FLA-16J-03PA-055	Nov 2, 2016	Nov 30, 2021
Permit to Operate (BLRCC)	DENR	FLA-17F-03PA-332	Jun 19, 2017	Jun 30, 2022
Permit to Operate	DENR	PTO-OL-Region III-2021000468	Jan 27, 2021	Jan 27, 2026
Wastewater Discharge Permit	DENR	-	In process	For preparation of Plans and Drawings. Target completion of registration is on or before December 2022
<i>North Luzon (San Rafael Substation)</i>				
Online Hazwaste Generator Registration	DENR	OL-GR-R3-14-006092	Oct 11, 2020	N/A (No expiration)

Name of License / Permit	Issuing Regulatory Body	License / Permit No.	Issue Date	Expiry Date
Online PCB Registration	DENR	CCO-PCB-R3-NAT-39	Jan 18, 2016	N/A (No expiration)
Permit to Operate	DENR	FLA-16J-03BU-058	Nov 15, 2016	Dec 30, 2021
Wastewater Discharge Permit	DENR	-	In process	For preparation of Plans and Drawings. Target completion of registration is on or before December 2022
<i>North Luzon (Fatima Load End)</i>				
Permit to Operate	DENR	PTO-OL-R03-2021-03861	Jun 07, 2021	Jun 07, 2026
<i>North Luzon (Fatima RS)</i>				
Permit to Operate	DENR	POA-20A-03NE-347	Jan 20, 2020	Jan 28, 2025
<i>South Luzon (Dasmariñas Complex Substation)</i>				
CNC	DENR	CNC-R4A-1401-0085	Jan. 27, 2014	N/A (No expiration)
Permit to Operate	DENR	2018-POA-0421-961	Mar 08, 2018	Feb 03, 2023
Permit to Operate	DENR	2018-POA-0421-961	Feb. 01, 2018	Aug 30, 2022
Permit to Operate	DENR	PTO-OL-R4A-2020-01559-R	Oct. 10, 2020	Oct 10, 2025
NWRB Permit	NWRB	WP No. 24887	Jul 25, 2019	N/A (No expiration)
Online Hazwaste Generator Registration	DENR	OL-GR-R4A-21-003255	Sep 11, 2020	N/A (No expiration)
Online PCB Registration	DENR	CCO-PCB-R4A-NAT-33	Dec 21, 2015	N/A (No expiration)
<i>South Luzon (Rosario Substation)</i>				
Permit to Operate	DENR	2013-POA-0421-960	Aug 20, 2018	Aug 16, 2023
ECC	DENR	ECC-R4A-0803-138-4120	Jul 29, 2008	N/A (No expiration)
Online Hazwaste Generator Registration	DENR	GR-4A-21-000277	Aug 15, 2016	N/A (No expiration)
Online PCB Registration	DENR	CCO-PCB-R4A-NAT-27	Dec 21, 2015	N/A (No expiration)
<i>South Luzon (Calaca Complex Substation)</i>				
Permit to Operate	DENR	PTO-OL-R4A-2021-06136-R	Aug 10, 2021	Aug 10, 2026
Permit to Operate	DENR	PTO-OL-R4A-2021-06136-R	Aug 10, 2021	Aug 10, 2026
ECC	DENR	ECC-R4A-1507-0567	Sep 01, 2015	N/A (No expiration)
Online Hazwaste Generator Registration	DENR	OL-GR-R4A-10-004688	Feb 18, 2021	N/A (No expiration)
Online PCB Registration	DENR	CCO-PCB-R4A-NGC-44	Jun 27, 2016	N/A (No expiration)
<i>South Luzon (Salong Substation)</i>				

Name of License / Permit	Issuing Regulatory Body	License / Permit No.	Issue Date	Expiry Date
Permit to Operate	DENR	2017-POA-0410-1555	Jun 07, 2017	Feb 28, 2022
Wastewater Discharge Permit	DENR	DP-R4A-20-02712	Jul 10, 2020	Jul 10, 2021 (Renewal is in process; Ongoing DENR process. Online renewal application was submitted and renewal fees paid on Sep 09, 2021)
ECC	DENR	ECC-R4A-1212-0686	Jan 21, 2013	N/A (No expiration)
Online Hazwaste Generator Registration	DENR	GR-4A-10-000237	Apr 19, 2017	N/A (No expiration)
<i>South Luzon (Batangas Complex Substation)</i>				
Permit to Operate	DENR	2012-POA-0410-687	Mar 08, 2018	Feb 03, 2023
NWRB Permit	NWRB	WP No. 024916	Aug 27, 2019	N/A (No expiration)
ECC	DENR	ECC-04981009-0622-120	Feb 16, 2004	N/A (No expiration)
Online Hazwaste Generator Registration	DENR	OL-GR-R4A-10-003314	Sep 21, 2020	N/A (No expiration)
Online PCB Registration	DENR	CCO-PCB-R4A-NAT-26	Dec 21, 2015	N/A (No expiration)
<i>South Luzon (Calapan RS with HWF)</i>				
Permit to Operate	DENR	2018-POA-E-0452-883	Feb 02, 2018	Feb 01, 2023
ECC	DENR	ECC-9908-334-120B	Dec 11, 2002	N/A (No expiration)
Online Hazwaste Generator Registration	DENR	OL-GR-R4B-52-007785	Oct 23, 2020	N/A (No expiration)
<i>South Luzon (Pinamalayan RS with HWF)</i>				
Permit to Operate	DENR	2018-POA-E-0452-410	May 07, 2018	May 06, 2023
Wastewater Discharge Permit	DENR	DP-R4B-21-01419	Mar 08, 2021	Mar 08, 2022
CNC	DENR	CNC-9908-334-120B	Dec 12, 2002	N/A (No expiration)
Online Hazwaste Generator Registration	DENR	OL-GR-R4B-52-007765	Oct 23, 2020	N/A (No expiration)
<i>South Luzon (San Aquilino RS with HWF)</i>				
Permit to Operate	DENR	2016-POA-E-0452-411	Jul 27, 2020	Jul 26, 2025
CNC	DENR	CNC-4B-027-999	Feb 02, 2006	N/A (No expiration)
Online Hazwaste Generator Registration	DENR	OL-GR-R4B-52-007743	Oct 23, 2020	N/A (No expiration)
<i>South Luzon (Looc/Limon Norte RS with HWF)</i>				
Permit to Operate	DENR	2014-POA-I-0459-177	Aug 25, 2020	Aug 24, 2025
ECC	DENR	ECC-9908-084-120B	Dec 11, 2002	N/A (No expiration)
Online Hazwaste Generator Registration	DENR	OL-GR-R4B-59-007774	Oct 23, 2020	N/A (No expiration)
<i>South Luzon (Tamayo RS with HWF)</i>				

Name of License / Permit	Issuing Regulatory Body	License / Permit No.	Issue Date	Expiry Date
Permit to Operate	DENR	2013-POA0410-599	Aug 13, 2019	Feb 29, 2024
Wastewater Discharge Permit	DENR	DP- R4A-20-01512	Apr 21, 2021	Apr 21, 2022
CNC	DENR	CNC-R4A-0806-208-7320	Jul 14, 2008	N/A (No expiration)
Online Hazwaste Generator Registration	DENR	OL-GR-R4A-10-005091	Feb 18, 2021	N/A (No expiration)
<i>South Luzon (Mt. De La Paz RS with HWF)</i>				
Permit to Operate	DENR	2013-POA0410-598	Aug 20, 2018	Jul 16, 2023
Permit to Operate	DENR	2020-POA0410-1149	Mar 06, 2020	Feb 28, 2025
Wastewater Discharge Permit	DENR	DP- R4A-20-01514	Mar 20, 2021	Mar 20, 2022
CNC	DENR	CNC-R4A-0806-207-7320	Aug 14, 2008	N/A (No expiration)
Online Hazwaste Generator Registration	DENR	OL-GR-R4A-10-011595	Feb 25, 2021	N/A (No expiration)
<i>South Luzon (Biñan Complex Substation)</i>				
Permit to Operate	DENR	2013-POA-0434-782	Nov 19, 2018	Oct 31, 2023
Permit to Operate	DENR	PTO-OL-R4A-2020-02057-R	Oct 31, 2020	Oct 31, 2025
CNC	DENR	CNC-R4A-1401-0084	Jan 27, 2014	N/A (No expiration)
Online Hazwaste Generator Registration	DENR	OL-GR-R4A-34-003358	Oct 08, 2020	N/A (No expiration)
Online PCB Registration	DENR	CCO-PCB-R4A-NAT-32	Dec 21, 2015	N/A (No expiration)
<i>South Luzon (Tayabas Substation)</i>				
Permit to Operate	DENR	2017-POA-E-0456-384	Jul 11, 2017	Apr 29, 2022
Permit to Operate	DENR	2017-POA-E-0456-384	Nov 05, 2018	Oct 30, 2023
NWRB Permit	NWRB	WP no. 022933	May 30, 2020	N/A (No expiration)
Chainsaw Permit	DENR	CLG-2019-020	May 11, 2019	N/A (Exempted per RA 11361)
CNC	DENR	CNC-9810-021-R04A	Nov 22, 2013	N/A (No expiration)
Online Hazwaste Generator Registration	DENR	GR-4A-56-00019	Jun 17, 2016	N/A (No expiration)
Online PCB Registration	DENR	CCO-PCB-R4A-NAT-21	Nov 06, 2016	N/A (No expiration)
Discharge Permit	DENR	2017-DP-QU-04-218	May 21, 2020	May 21, 2021 (Online application filed before expiry; fees for renewal application paid on May 19, 2021, under evaluation of EMB)

Name of License / Permit	Issuing Regulatory Body	License / Permit No.	Issue Date	Expiry Date
<i>South Luzon (Gumaca Substation)</i>				
Permit to Operate	DENR	2018-POA-E-0456-652	Jan 25, 2019	Apr 30, 2024
Permit to Operate	DENR	2018-POA-E-0456-385	Mar 19, 2018	Apr 14, 2023
NWRB Permit	NWRB	WP No. 022712	Aug 01, 2020	N/A (No expiration)
Chainsaw Permit	DENR	CLG-2019-020	May 11, 2020	N/A (Exempted per RA 11361)
CNC	DENR	CNC-9802-005-R34	Mar 10, 1998	N/A (No expiration)
Online Hazwaste Generator Registration	DENR	GR-4A-56-00018	Jun 17, 2016	N/A (No expiration)
Online PCB Registration	DENR	CCO-PCB-R4A-NAT-19	Dec 04, 2015	N/A (No expiration)
Discharge Permit	DENR	2017-DP-QU-04-218	Jan. 12, 2019	Apr 30, 2021 (Online application filed before expiry; fees for renewal application paid on May 19, 2021, under evaluation of EMB)
<i>South Luzon (Lumban Substation)</i>				
Permit to Operate	DENR	2019-POA-E-0434-675	Jan 14, 2019	Oct. 30, 2023
NWRB Permit	NWRB	WP No. 023440	Aug 01, 2020	N/A (No expiration)
Online Hazwaste Generator Registration	DENR	GR-4A-34-000357	Jun 17, 2016	N/A (No expiration)
Online PCB Registration	DENR	CCO-PCB-R4A-NAT-24	Jun 17, 2016	N/A (No expiration)
<i>South Luzon (Bay Substation)</i>				
Permit to Operate	DENR	PTO-OL-R4A-2020-02790-R	Dec 07, 2020	Dec 7, 2025
NWRB Permit	NWRB	WP No. 023440	Nov 11, 2020	N/A (No expiration)
ECC	DENR	ECC-237-BA-4110-94	Jul 18, 1994	N/A (No expiration)
Online Hazwaste Generator Registration	DENR	GR-4A-34-000272	Jun 17, 2016	N/A (No expiration)
Online PCB Registration	DENR	CCO-PCB-R4A-NAT-09	Dec 04, 2015	N/A (No expiration)
<i>South Luzon (Calamba MTD-A Office)</i>				
Permit to Operate	DENR	2018-POA-E-0434-1117	Apr 15, 2019	Apr 15, 2024
Permit to Operate	DENR	PTO-OL-R4A-2020-00917-R	Sep 16, 2020	Sep 16, 2025
CNC	DENR	CNC-CO-1104-005	Apr 13, 2011	N/A (No expiration)
Online PCB Registration	DENR	CCO-PCB-R4A-NAT-22	Dec 09, 2015	N/A (No expiration)
<i>South Luzon (Caliraya Substation)</i>				
Permit to Operate	DENR	2018-POA-E-0434-895	Nov. 5, 2018	Aug 31, 2023

<b>Name of License / Permit</b>	<b>Issuing Regulatory Body</b>	<b>License / Permit No.</b>	<b>Issue Date</b>	<b>Expiry Date</b>
Online PCB Registration	DENR	CCO-PCB-R4A-NAT-23	Dec. 10, 2015	N/A (No expiration)
<i>South Luzon (Maunong RS)</i>				
Permit to Operate	DENR	2018-POA-E-0434-674	Jun 20, 2019	Apr 30, 2024
Permit to Operate	DENR	2018-POA-E-0434-674	Jul 16, 2018	Oct 18, 2023
CNC	DENR	CNC-052-LA-98	Jul 31, 1998	N/A (No expiration)
<i>South Luzon (Lucban RS)</i>				
Permit to Operate	DENR	2018-POA-E-0456-368	Apr 20, 2018	Apr 12, 2023
Permit to Operate	DENR	2018-POA-E-0456-368	Sep 10, 2018	Apr 28, 2023
<i>South Luzon (Guinyangan RS)</i>				
Permit to Operate	DENR	2018-POA-E-0456-367	Sep 10, 2018	Apr 28, 2023
CNC	DENR	CNC-050-QU-98	Jul 31, 1999	N/A (No expiration)
<i>South Luzon (Kalayaan RS)</i>				
Permit to Operate	DENR	2018-POA-E-0434-675	Dec 12, 2018	Oct. 31, 2023
CNC	DENR	CNC-LDBW-0808-059-4010	Jul 31, 1998	N/A (No expiration)
<i>South Luzon (Los Baños LES)</i>				
Online PCB Registration	DENR	CCO-PCB-R4A-NAT-25	Dec 09, 2015	N/A (No expiration)
<i>South Luzon (Pitogo Load End Station)</i>				
Online PCB Registration	DENR	CCO-PCB-R4A-NAT-21	Dec 10, 2015	N/A (No expiration)
<i>South Luzon (Mulanay Substation)</i>				
Online PCB Registration	DENR	CCO-PCB-R4A-NAT-20	Dec 09, 2015	N/A (No expiration)
<i>South Luzon (NGCP Facilities – Bicol Region)</i>				
PCO Accreditation	DENR	EMB R5AL-N-2021F-3621	Jun 25, 2021	Jun 25, 2024
<i>South Luzon (SL District 3 Batobalani LES)</i>				
Online PCB Registration	DENR	CCO-PCB-R5-NAT-112	Sep 08, 2016	N/A (No expiration)
CNC	DENR	CNC-CO-1001-0060	Jan 05, 2010	N/A (No expiration)
<i>South Luzon (Bucalbulan RS)</i>				
ECC	DENR	0311-246-7310	Nov 17, 2003	N/A (No expiration)
Permit to Operate	DENR	POA-17H-05AL-543	Sep 06, 2017	Aug 31, 2022
CNC	DENR	CNC-CO-1001-0060	Jan 05, 2010	N/A (No expiration)
<i>South Luzon (SL District 3 Bulan LES)</i>				
CNC	DENR	CNC-CO-1001-0060	Jan 05, 2010	N/A (No expiration)

Name of License / Permit	Issuing Regulatory Body	License / Permit No.	Issue Date	Expiry Date
Online PCB Registration	DENR	CCO-PCB-R5-NAT-113	Aug 09, 2016	N/A (No expiration)
<i>South Luzon (SL District 3 Calabanga ES)</i>				
ECC	DENR	9110-006-120C	Jun 01, 1992	N/A (No expiration)
<i>South Luzon (Camalig RS)</i>				
Permit to Operate	DENR	POA-17I-05AL-243	Sep 06, 2017	Sep 10, 2022
CNC	DENR	CNC-05CS-98H-079	Aug 11, 1998	N/A (No expiration)
<i>South Luzon (SL District 3 DARAGA Office)</i>				
CNC	DENR	CNC-CO-1208-0009	Aug 1, 2012	N/A (No expiration)
CNC	DENR	CNC-05AL-07D-088	Apr 24, 2007	N/A (No expiration)
CNC	DENR	CNC-CO-1001-0060	May 01, 2010	N/A (No expiration)
CNC	DENR	0705-017-010	May 17, 2007	N/A (No expiration)
CNC	DENR	0703-015-005	Mar 15, 2007	N/A (No expiration)
CNC	DENR	CNC-CO-1005-0003	May 12, 2010	N/A (No expiration)
CNC	DENR	CNC-CO-1007-0001	Jul 01, 2010	N/A (No expiration)
CNC	DENR	CNC-05AL-02L-116	Dec 27, 2002	N/A (No expiration)
Online PCB Registration	DENR	CCO-PCB-R5-NGC-108	Jun 09, 2016	N/A (No expiration)
Online PCB Registration	DENR	CCO-PCB-R5-NAT-114	Aug 09, 2016	N/A (No expiration)
ECC	DENR	ECC-RO5-1206-0092	Jun 11, 2012	N/A (No expiration)
ECC	DENR	ECC-NPCTS-96F-05LV-054	Jul 29, 1996	N/A (No expiration)
ECC	DENR	ECC-OL-R05-2020-0279	Oct 30, 2020	N/A (No expiration)
Hazwaste Generator ID Registration	DENR	GR-R5-05-00027	Jun 09, 2016	N/A (No expiration)
Hazwaste Generator ID Registration	DENR	05-05-0161	Jan 19, 2009	N/A (No expiration)
NWRB Permit	NWRB	22130	Oct 26, 2010	N/A (No expiration)
Permit to Operate	DENR	POA-17H-05AL-521	Aug 07, 2017	Aug 14, 2022
Wastewater Discharge Permit	DENR	WDP-17J-05AL-274	Sep 25, 2017	Oct 01, 2022
<i>South Luzon (SL District 3 IRIGA LES)</i>				
Online PCB Registration	DENR	CCO-PCB-R5-NAT-116	Aug 09, 2016	N/A (No expiration)
<i>South Luzon (SL District 3 LABO Office)</i>				
Online PCB Registration	DENR	CCO-PCB-NAT-117	Aug 9, 2016	N/A (No expiration)

<b>Name of License / Permit</b>	<b>Issuing Regulatory Body</b>	<b>License / Permit No.</b>	<b>Issue Date</b>	<b>Expiry Date</b>
CNC	DENR	CNC-CO-1104-0010	Apr 15, 2011	N/A (No expiration)
CNC	DENR	CNC-CO-1001-0060	Jan 05, 2010	N/A (No expiration)
CNC	DENR	0703-015-005	Mar 15, 2007	N/A (No expiration)
CNC	DENR	0705-017-010	May 17, 2007	N/A (No expiration)
CNC	DENR	CNC-CO-1201-0009	Jan 13, 2012	N/A (No expiration)
ECC	DENR	9210-005-120A	Mar 01, 1993	N/A (No expiration)
Hazwaste Generator ID Registration	DENR	05-16-0067	Jan 19, 2009	N/A (No expiration)
<i>South Luzon (SL District 3 Libmanan Office)</i>				
Online PCB Registration	DENR	CCO-PCB-R5-NAT-118	Aug 09, 2016	N/A (No expiration)
CNC	DENR	CNC-05CS-03E-044	May 06, 2003	N/A (No expiration)
<i>South Luzon (Matnog RS)</i>				
CNC	DENR	CNC-05CS-98H-078	Aug 11, 1998	N/A (No expiration)
ECC	DENR	ECC-NPCP-95I-05SO-053	Oct 16, 1995	N/A (No expiration)
Permit to Operate	DENR	POA-17I-05SO-398	Oct 30, 2017	Sep 25, 2022
<i>South Luzon (SL District 3 NAGA Office)</i>				
Online PCB Registration	DENR	CCO-PCB-R5-NAT-119	Aug 09, 2016	N/A (No expiration)
Online PCB Registration	DENR	CCO-PCB-R5-NAT-120	Aug 09, 2016	N/A (No expiration)
CNC	DENR	0805-27-005	May 27, 2008	N/A (No expiration)
CNC	DENR	CNC-CO-1005-0028	May 21, 2010	N/A (No expiration)
CNC	DENR	0710-019-029	Oct 19, 2007	N/A (No expiration)
CNC	DENR	CNC-CO-1104-0010	Apr 15, 2011	N/A (No expiration)
CNC	DENR	CNC-CO-1001-0060	Jan 5, 2010	N/A (No expiration)
CNC	DENR	0703-015-005	Mar 15, 2007	N/A (No expiration)
CNC	DENR	0705-017-010	May 17, 2007	N/A (No expiration)
CNC	DENR	CNC-CO-1205-0021	May 29, 2012	N/A (No expiration)
ECC	DENR	ECC-OL-R05-2018-0002	Jan 5, 2018	N/A (No expiration)
ECC	DENR	0310-220-7310	Oct 20, 2003	N/A (No expiration)
ECC	DENR	9210-005-120A	Mar 01, 1993	N/A (No expiration)

<b>Name of License / Permit</b>	<b>Issuing Regulatory Body</b>	<b>License / Permit No.</b>	<b>Issue Date</b>	<b>Expiry Date</b>
ECC	DENR	9110-006-120C	Jun 01, 1992	N/A (No expiration)
Hazwaste Generator ID Registration	DENR	05-17-0147	Jan 19, 2009	N/A (No expiration)
Hazwaste Generator ID Registration	DENR	05-17-0146	Jan 19, 2009	N/A (No expiration)
<i>South Luzon (Pio v. Corpuz RS)</i>				
ECC	DENR	0507-160-7320	Jul 27, 2005	N/A (No expiration)
ECC	DENR	ECC-NPCP-96A-05MA-009	Jan 19, 1996	N/A (No expiration)
Permit to Operate	DENR	POA-17I-05MA-210	Sep 06, 2017	Sep 10, 2022
<i>South Luzon (Polangui RS)</i>				
CNC	DENR	CNC-05AL-01F-024	Jun 06, 2001	N/A (No expiration)
<i>South Luzon (SL District 3 Sorsogon SWS)</i>				
CNC	DENR	CNC-CO-1001-0060	Jan 05, 2010	N/A (No expiration)
<i>South Luzon (HVDC Sta. Magdalena CTS)</i>				
ECC	DENR	ECC-RO5-1808-0074	Dec 07, 2018	N/A (No expiration)
ECC	DENR	9110-006-120C	Jun 01, 1992	N/A (No expiration)
CNC	DENR	CNC-CO-1004-0012	Apr 29, 2010	N/A (No expiration)
Online PCB Registration	DENR	CCO-PCB-R5-NAT-122	Aug 09, 2016	N/A (No expiration)
<i>South Luzon (SL District 3 Sto. Domingo LES)</i>				
CNC	DENR	CNC-OL-R05-2019-07-00728	Jul 16, 2019	N/A (No expiration)
CNC	DENR	CNC-R05-0812-424-4110	Jun 04, 2009	N/A (No expiration)
CNC	DENR	CNC-R05-1404-0005	Apr 08, 2014	N/A (No expiration)
<i>South Luzon (SL District 3 Tiwi A SS)</i>				
ECC	DENR	ECC-NPCTS-96F-05LV-054	Jul 29, 1996	N/A (No expiration)
ECC	DENR	ECC-RO5-1706-0024	Jun 29, 2017	N/A (No expiration)
CNC	DENR	CNC-OL-R05-2017-07-00324	Jul 10, 2017	N/A (No expiration)
CNC	DENR	0703-015-005	Mar 15, 2007	N/A (No expiration)
CNC	DENR	0805-27-005	May 27, 2008	N/A (No expiration)
<i>South Luzon (SL District 3 Tiwi C SS)</i>				

Name of License / Permit	Issuing Regulatory Body	License / Permit No.	Issue Date	Expiry Date
CNC	DENR	0703-015-005	Mar 15, 2007	N/A (No expiration)
CNC	DENR	CNC-OL-R05-2017-07-00324	Jul 10, 2017	N/A (No expiration)
Online PCB Registration	DENR	CCO-PCB-R5-NAT-124	Aug 9, 2016	N/A (No expiration)
ECC	DENR	ECC-NPCTS-96F-05LV-054	Jul 29, 1996	N/A (No expiration)
ECC	DENR	ECC-RO5-1706-0024	Jun 29, 2017	N/A (No expiration)
<b>Visayas (Ajuy RS)</b>				
Online Hazwaste Generator Registration	DENR	EMBR6-1345200-38919	Oct 10, 2020	N/A (No expiration)
CNC	DENR	CNC-OL-R06-2016-07-08053	Jul 04, 2016	N/A (No expiration)
Wastewater Discharge Permit	DENR		In process	For preparation of Plans and Drawings. Target completion of registration is on or before December 2022
<b>Visayas (Amlan SS)</b>				
Online Hazwaste Generator Registration	DENR	OL-GR-R7-46-004992	Sep 11, 2020	N/A (No expiration)
Online PCB Registration	DENR	CCO-PCB-R7-AML-42	Apr 14, 2016	N/A (No expiration)
Permit to Operate	DENR	PTO-OL-R07-2021-03569-R	May 27, 2021	May 27, 2026
Wastewater Discharge Permit	DENR	DP R07-20-03243	Feb 08, 2020	Feb 08, 2025
ECC	DENR	07-05-01-17-097-207	Jan 17, 2005	N/A (No expiration)
NWRB Permit	NWRB		In process	For securing of drilling data for deep well.
<b>Visayas (Amlan Substation)</b>				
ECC	DENR	9209-019-120A	Mar 01, 1998	N/A (No expiration)
<b>Visayas (Anti Flooding Project at Tabango SS)</b>				
CNC	DENR	CNC #CNC-OL-R08-2018-07-00536	Jul 5, 2018	N/A (No expiration)
<b>Visayas (Babatngon SS)</b>				
Online Hazwaste Generator Registration	DENR	OL-GR-R8-37-002560	Jul 09, 2020	N/A (No expiration)
Online PCB Registration	DENR	CCO-PCB-R8-NAT-27	Nov 04, 2015	N/A (No expiration)
Permit to Operate	DENR	18-POA-F-0837-0142	Jun 06, 2018	Jun 06, 2023
Wastewater Discharge Permit	DENR	DP-R08-20-05595	Nov 19, 2020	Nov 19, 2021 (Renewal is in process; Ongoing preparation of Purchase Requisition for siphoning services to

Name of License / Permit	Issuing Regulatory Body	License / Permit No.	Issue Date	Expiry Date
				comply with permit renewal requirement.)
ECC	DENR	OB 138kV TLP	Aug 12, 2012	N/A (No expiration)
NWRB Permit	NWRB	CWP No. 02- 15-17-069	Feb 15, 2016	Feb 15, 2017 (Filed manual application prior to expiration; Online renewal application with new NWRB requirements filed on May 11, 2021; under NWRB evaluation)
<i>Visayas (Babatngon-Palo 138 kV SS/TL)</i>				
CNC	DENR			No application filed yet pending completion of site selection and ROW acquisition activities
<i>Visayas (Bacolod SS)</i>				
Online Hazwaste Generator Registration	DENR	OL-GR-R6- 45-006084	Oct 02, 2020	N/A (No expiration)
Online PCB Registration	DENR	CCO-PCB-04- 01-000010	Jun 02, 2010	N/A (No expiration)
Permit to Operate	DENR	19-POA-A- 0645-291	Mar 28, 2019	Jan 15, 2024
ECC	DENR	0604-115-778- 120	Jul 13, 2005	N/A (No expiration)
Wastewater Discharge Permit	DENR		In process	For preparation of Plans and Drawings. Target completion of registration is on or before December 2022
NWRB Permit	NWRB	022044	Jul 01, 2020	N/A (No expiration)
<i>Visayas (Barotac Viejo SS)</i>				
Online Hazwaste Generator Registration	DENR	EMBR6- 8832100- 25021	Aug 16, 2020	N/A (No expiration)
Online PCB Registration	DENR	-	Aug 10, 2015	N/A (No expiration)
Permit to Operate	DENR	18-POA-F- 0630-1026	Mar 12, 2019	Jun 15, 2023
ECC	DENR	0606-0508- 186-120A	Oct 02, 2018	N/A (No expiration)
Wastewater Discharge Permit	DENR		In process	For preparation of Plans and Drawings. Target completion of registration is on or before December 2022
NWRB Permit	NWRB		In process	For Contractor processing under TOR prior to turnover.
<i>Visayas (Bohol -Backbone 138 kV T/L (Ubay-Corella T/L))</i>				
Special Use Agreement on Protected Areas	DENR	MOA SAPA Bohol Backboe 138 kV TLP	Jan 17, 2013	N/A (No expiration)
<i>Visayas (Borbon (Muagao) MWRS)</i>				

Name of License / Permit	Issuing Regulatory Body	License / Permit No.	Issue Date	Expiry Date
ECC	DENR	CNC-07 07 11-27 0590 999	Jan 25, 2008	N/A (No expiration)
Online Hazwaste Generator Registration	DENR	07-22-937	Oct 17, 2007	N/A (No expiration)
Wastewater Discharge Permit	DENR		In process	Ongoing preparation of Plans and Drawings. Target completion of registration is on or before December 2021.
Permit to Operate	DENR	POA-19-B- 072213-009	Feb 27, 2019	Feb 27, 2021  (Online renewal application filed on Feb 19, 2021, under DENR evaluation)
<i>Visayas (Buena Vista MWRS)</i>				
Permit to Operate	DENR	PTO-OL-R07- 2021-02827-R	May 06, 2021	Mar 06, 2026
ECC	DENR	CNC-OL- R07-2016-07- 08054	Jul 04, 2016	N/A (No expiration)
Online Hazwaste Generator Registration	DENR	07-22-938	Oct 17, 2007	N/A (No expiration)
Wastewater Discharge Permit	DENR		In process	Ongoing preparation of Plans and Drawings. Target completion on or before December 2021.
<i>Visayas (Buena Vista SS)</i>				
Online Hazwaste Generator Registration	DENR	EMBR6- 8832100- 30012	Sep 09, 2020	N/A (No expiration)
Permit to Operate	DENR	18-POA-G- 0604-88	Mar 12, 2018	Jul 15, 2023
ECC	DENR	With ECC (for fetching at Tarec)	-	N/A (No expiration)
Online PCB Registration	DENR		In process	For registration. Target completion of registration is on or before December 2021.
Wastewater Discharge Permit	DENR		In process	For preparation of Plans and Drawings. Target completion on or before December 2022.
NWRB Permit	NWRB		In process	For securing of drilling data for deep well.
<i>Visayas (Busay (Babag) MWRS)</i>				
Permit to Operate	DENR	POA-18-L- 072249-203	Jan 19, 2018	Jan 19, 2023
ECC	DENR	ECC-94K- 07CE-098	Dec 08, 1994	N/A (No expiration)
Online Hazwaste Generator Registration	DENR	07-22-935	Oct 17, 2007	N/A (No expiration)
Wastewater Discharge Permit	DENR		In process	Ongoing preparation of Plans and Drawings. Target completion on or before December 2021.
<i>Visayas (Busay (Babag) MWRS 25 kVa (new))</i>				

Name of License / Permit	Issuing Regulatory Body	License / Permit No.	Issue Date	Expiry Date
Permit to Operate	DENR		In process	New Genset (under Contractor's TOR).
<i>Visayas (Busay Repeater Station)</i>				
Special Land Use Permit	DENR	SLUP # R7-2018-05	Nov 09, 2018	Nov 09, 2021 (For FLAg conversion to be included in the TIMP process (Mother FLAg is not yet available in Visayas c/o TIMP)).
<i>Visayas (C.P. Garcia CTS)</i>				
Online Hazwaste Generator Registration	DENR	M-GR-R7-12-00472	Jan 17, 2020	N/A (No expiration)
Permit to Operate	DENR	POA-20-B-071249-009	Feb 03, 2020	Feb 03, 2025
NWRB Permit	NWRB	Water Permit No. 022711	Feb 19, 2018	Dec 31, 2021; Water permit processed and ready for payment.
ECC	DENR	ECC-96E-07BO-031	May 10, 1996	N/A (No expiration)
Online PCB Registration	DENR		In process	Target completion of registration is on or before December 2021.
Wastewater Discharge Permit	DENR		In process	In process with EMB. Target completion of registration is on or before December 2021.
<i>Visayas (Cabacungan CTS)</i>				
Online Hazwaste Generator Registration	DENR	OL-GR-R8-48-003635	Jul 09, 2020	N/A (No expiration)
Permit to Operate	DENR	POA-2019-J-0848-0310	Oct 21, 2019	Oct 20, 2024
ECC	DENR	9110-006-120C	Jun 01, 1992	N/A (No expiration)
NWRB Permit	NWRB		In process	For securing of drilling data for deep well.
Wastewater Discharge Permit	DENR	DP-R08-20-1270	Mar 05, 2020	Mar 05, 2021 (Filed manual application prior to expiration; Online renewal application with new requirements filed on Sep 15, 2021; under DENR evaluation)
<i>Visayas (Cadiz SS)</i>				
Online Hazwaste Generator Registration	DENR	OL-GR-R6-45-004015	Sep 10, 2020	N/A (No expiration)
Permit to Operate	DENR	20-POA-K-0645-294	Feb 05, 2020	Nov 30, 2024
ECC	DENR	0693-1206-347-207A	Aug 29, 1994	N/A (No expiration)
Wastewater Discharge Permit	DENR		In process	For preparation of Plans and Drawings. Target completion on or before December 2022.
NWRB Permit	NWRB		In process	For securing of drilling data for deep well.
<i>Visayas (Calatrava CTS/SS)</i>				
ECC	DENR	ECCOL-RO6-2018-0255	Jul 04, 2018	N/A (No expiration)
<i>Visayas (Calbayog SS)</i>				
Online Hazwaste Generator Registration	DENR	OL-GR-R8-60-003652	Jul 09, 2020	N/A (No expiration)

Name of License / Permit	Issuing Regulatory Body	License / Permit No.	Issue Date	Expiry Date
Online PCB Registration	DENR	CCO-PCB-R8-NGC-34	Dec 01, 2015	N/A (No expiration)
Permit to Operate	DENR	POA-2019-F-0860-0166	Jun 07, 2019	Jun 07, 2024
Wastewater Discharge Permit	DENR	DP-R08-20-04528	Oct 09, 2020	Oct 09, 2021 (Ongoing preparation of Purchase Requisition for siphoning services to comply with permit renewal requirement)
NWRB Permit	NWRB	WP No. 024041	Dec 31, 2020	Dec 31, 2021 (For payment processing in September 2021)
ECC	DENR	WC 138kV TLP	Sep 16, 2005	N/A (No expiration)
<i>Visayas (Calbayog-Allen 69KV Transmission Project (T/L: 78 km)</i>				
CNC	DENR			Project renamed to: Calbayog-San Isidro 69KV Transmission Project.  Application to be filed by end of Sep 2021 after site inspection
<i>Visayas (Calongcalong SS)</i>				
Online Hazwaste Generator Registration	DENR	GR-R7-22-00719	May 16, 2019	N/A (No expiration)
Permit to Operate	DENR	PTO-OL-R07-2021-03553-R	May 27, 2021	May 27, 2026
ECC	DENR	ECC-R07-1211-0306	Feb 26, 2013	N/A (No expiration)
Online PCB Registration	DENR		In process	Target completion of registration is on or before December 2021.
Wastewater Discharge Permit	DENR		In process	Ongoing preparation of Plans and Drawings. Target completion on or before December 2021.
<i>Visayas (Camotes MWRS)</i>				
ECC	DENR	ECC 07 02 01-21 0038 120B	May 28, 2009	N/A (No expiration)
Online Hazwaste Generator Registration	DENR	07-22-936	Oct 17, 2007	N/A (No expiration)
Wastewater Discharge Permit	DENR		In process	Ongoing preparation of Plans and Drawings. Target completion on or before December 2021
<i>Visayas (Caniapasan RS)</i>				
ECC	DENR	With ECC		N/A (No expiration)
<i>Visayas (Cebu - Negros Interconnection Uprating Project)</i>				
Special Use Agreement on Protected Areas	DENR	CNIUP SAPA # 2009-01	Jan 08, 2009	Jan 08, 2034
<i>Visayas (Cebu SS)</i>				
Online Hazwaste Generator Registration	DENR	GR-R7-22-01011	Jul 25, 2018	N/A (No expiration)
Online PCB Registration	DENR	CCO-PCB-R7-NAT-57	May 10, 2016	N/A (No expiration)
Permit to Operate	DENR	POA-14-K-072249-718	May 25, 2018	Feb 05, 2023

Name of License / Permit	Issuing Regulatory Body	License / Permit No.	Issue Date	Expiry Date
ECC	DENR	ECC-R07-1310-0245	Dec 23, 2013	N/A (No expiration)
Wastewater Discharge Permit	DENR		In process	In process with EMB. Target completion of registration is on or before December 2021.
NWRB	NWRB Permit		In process	For securing of additional documents needed for reapplication. Target completion of registration is on or before December 2021.
<i>Visayas (Colon - Cebu 138 kV TL)</i>				
Special Use Agreement on Protected Areas	DENR	MOA _DENR R7 and NGCP CCTP	Dec 27, 2012	N/A (No expiration)
<i>Visayas (Colon SS)</i>				
Online Hazwaste Generator Registration	DENR	GR-R7-22-01069	Jun 26, 2018	N/A (No expiration)
Online PCB Registration	DENR	CCO-PCB-R7-NAT-91	Dec 05, 2016	N/A (No expiration)
ECC	DENR	ECC-R07-1211-0306	Feb 26, 2013	N/A (No expiration)
Wastewater Discharge Permit	DENR		In process	Ongoing preparation of Plans and Drawings. Target completion of registration is on or before December 2021.
Permit to Operate	DENR	POA-18-F-072230-037	Jul 30, 2018	Jul 12, 2021 (Online renewal application filed on Jul 12, 2021, under DENR evaluation)
<i>Visayas (Compostela MWRS)</i>				
ECC	DENR	ECC-OL-R07-2020-0213	Sep 24, 2020	N/A (No expiration)
<i>Visayas (Compostela SS)</i>				
Online Hazwaste Generator Registration	DENR	OL-GR-R7-22-013255	May 27, 2021	N/A (No expiration)
Online PCB Registration	DENR	CCO-PCB-R7-NAT-87	Dec 05, 2016	N/A (No expiration)
ECC	DENR	ECC-OL-R07-2020-0213	Sep 24, 2020	N/A (No expiration)
Wastewater Discharge Permit	DENR		In process	In process with EMB. Target completion of registration is on or before December 2021.
NWRB	NWRB Permit		In process	For securing of additional documents needed for reapplication. Target completion of registration is on or before December 2021.
Permit to Operate	DENR	PTO-OL-RO7-2021-05313-R	July 14, 2021	July 14, 2026
<i>Visayas (Concepcion SS)</i>				
Permit to Operate	DENR	18-POA-F-0630-1744	Feb 26, 2018	Jun 15, 2023

Name of License / Permit	Issuing Regulatory Body	License / Permit No.	Issue Date	Expiry Date
ECC	DENR	ECC-R6-1305-0158-9999	Nov 24, 2014	N/A (No expiration)
Online Hazwaste Generator Registration	DENR		In process	Target completion of registration is on or before December 2021.
Online PCB Registration	DENR		In process	For updating of PCB Management Plan. Target completion of registration is on or before December 2021.
<i>Visayas (Corella SS)</i>				
Online Hazwaste Generator Registration	DENR	OL-GR-R7-12-011512	Dec 23, 2020	N/A (No expiration)
Online PCB Registration	DENR	CCO-PCB-R7-NAT-88	Dec 05, 2016	N/A (No expiration)
Permit to Operate	DENR		In process	In process with EMB. Target completion of registration is in September 2021.
NWRB Permit	NWRB	Water Permit No. 023413	Feb 19, 2018	Dec 31, 2021(Ready for payment of renewal fees; Manager's check already available. Target payment for renewal is on or before October 2021).
ECC	DENR	ECC-R07-1009-0240	Nov 09, 2010	N/A (No expiration)
Wastewater Discharge Permit	DENR		In process	Ongoing preparation of Plans and Drawings. Target completion of registration is on or before December 2021.
Permit to Operate	DENR	PTO-OL-R07-2021-03540-R	May 27, 2021	Aug 27, 2021 (Online renewal application filed on Aug 16, 2021, under DENR evaluation)
<i>Visayas (Daanbantayan SS)</i>				
Online Hazwaste Generator Registration	DENR	OL-GR-R7-22-013026	May 21, 2021	N/A (No expiration)
Online PCB Registration	DENR	CCO-PCB-R7-NAT-48	Apr 18, 2016	N/A (No expiration)
ECC	DENR	ECC 07 03 11-11 0473 207	Mar 22, 2004	N/A (No expiration)
Wastewater Discharge Permit	DENR		In process	Ongoing preparation of Plans and Drawings. Target completion of registration is on or before December 2021.
Permit to Operate	DENR	POA-18-B-072218-042	Aug 03, 2018	Feb 25, 2021 (Online renewal application filed on Febr 24, 2021 , under DENR evaluation)
<i>Visayas (Danao LESS)</i>				
Online Hazwaste Generator Registration	DENR	M-GR-R7-22-04586	Jan 31, 2020	N/A (No expiration)
Online PCB Registration	DENR	CCO-PCB-R7-NAT-89	Dec 05, 2016	N/A (No expiration)

Name of License / Permit	Issuing Regulatory Body	License / Permit No.	Issue Date	Expiry Date
Wastewater Discharge Permit	DENR		In process	In process with EMB. Target completion of registration is on or before December 2021.
NWRB	NWRB Permit		In process	For securing of additional documents and drilling data needed for reapplication. Target completion of registration is on or before December 2021.
ECC	DENR		N/A	N/A (No expiration)
Permit to Operate	DENR	POA-20-A-072250-107	Jan 09, 2020	Jan 09, 2021 (Online renewal application filed on Jan 06, 2021, under DENR evaluation)
<b>Visayas (Dingle SS)</b>				
Online Hazwaste Generator Registration	DENR	EMBR6-8832100-25022	Aug 16, 2020	N/A (No expiration)
Online PCB Registration	DENR	-	May 06, 2015	N/A (No expiration)
Permit to Operate	DENR	17-POA-E-0630-611	Sep 05, 2017	May 15, 2022
ECC	DENR	0602-0121-022-120	Feb 05, 2002	N/A (No expiration)
Wastewater Discharge Permit	DENR		In process	For preparation of Plans and Drawings. Target completion of registration is on or before December 2022.
NWRB Permit	NWRB	WP 024205	Jun 30, 2020	N/A (No expiration)
<b>Visayas (Visayas District 1)</b>				
Chainsaw Permit	DENR	CHAIN SAW # 365019512	Jul 19, 2018	N/A (Exempted per RA 11361)
Chainsaw Permit	DENR	CHAIN SAW # 365019629	Jul 24, 2018	N/A (Exempted per RA 11361)
Chainsaw Permit	DENR	CHAIN SAW # 365019635	Jul 24, 2018	N/A (Exempted per RA 11361)
Chainsaw Permit	DENR	CHAIN SAW # 365019633	Jan 23, 2019	N/A (Exempted per RA 11361)
Chainsaw Permit	DENR	CHAIN SAW # 365019342	Jan 23, 2019	N/A (Exempted per RA 11361)
Chainsaw Permit	DENR	CHAIN SAW # 178076604	Jan 23, 2019	N/A (Exempted per RA 11361)
Chainsaw Permit	DENR	CHAIN SAW # 175421948	Jul 24, 2018	N/A (Exempted per RA 11361)
Chainsaw Permit	DENR	CHAIN SAW # 176107839	Jul 11, 2018	N/A (Exempted per RA 11361)
Chainsaw Permit	DENR	CHAIN SAW # 176107841	Jul 11, 2018	N/A (Exempted per RA 11361)
Chainsaw Permit	DENR	CHAIN SAW # 176107883	Jul 11, 2018	N/A (Exempted per RA 11361)
Chainsaw Permit	DENR	CHAIN SAW # 176107909	Jun 17, 2017	N/A (Exempted per RA 11361)
Chainsaw Permit	DENR	CHAIN SAW # 176107912	Jul 11, 2018	N/A (Exempted per RA 11361)

Name of License / Permit	Issuing Regulatory Body	License / Permit No.	Issue Date	Expiry Date
Chainsaw Permit	DENR	CHAIN SAW # 176107891	Jul 11, 2018	N/A (Exempted per RA 11361)
Chainsaw Permit	Philippine Coconut Authority (PCA)	CHAIN SAW # 365019512	Mar 6, 2019	N/A (Exempted per RA 11361)
Chainsaw Permit	PCA	CHAIN SAW # 365019629	Mar 6, 2019	N/A (Exempted per RA 11361)
Chainsaw Permit	PCA	CHAIN SAW # 365019635	Mar 6, 2019	N/A (Exempted per RA 11361)
Chainsaw Permit	PCA	CHAIN SAW # 365019633	Mar 6, 2019	N/A (Exempted per RA 11361)
Chainsaw Permit	PCA	CHAIN SAW # 365019342	Feb 12, 2019	N/A (Exempted per RA 11361)
Chainsaw Permit	PCA	CHAIN SAW # 178076604	Feb 12, 2019	N/A (Exempted per RA 11361)
Chainsaw Permit	PCA	CHAIN SAW # 175421948	Mar 6, 2019	N/A (Exempted per RA 11361)
Chainsaw Permit	PCA	CHAIN SAW # 176107839	Apr 16, 2019	N/A (Exempted per RA 11361)
Chainsaw Permit	PCA	CHAIN SAW # 176107841	Apr 16, 2019	N/A (Exempted per RA 11361)
Chainsaw Permit	PCA	CHAIN SAW # 176107883	Apr 16, 2019	N/A (Exempted per RA 11361)
Chainsaw Permit	PCA	CHAIN SAW # 176107909	Apr 16, 2019	N/A (Exempted per RA 11361)
Chainsaw Permit	PCA	CHAIN SAW # 176107912	Apr 16, 2019	N/A (Exempted per RA 11361)
Chainsaw Permit	PCA	CHAIN SAW # 176107891	Apr 16, 2019	N/A (Exempted per RA 11361)
<i>Visayas (E.B. Magalona Access Road)</i>				
CNC	DENR	CNC-OL-R06-2019-12-02392	Dec 05, 2019	N/A (No expiration)
<i>Visayas (E.B. Magalona CTS)</i>				
ECC	DENR	0606-0508-186-120	May 30, 2006	N/A (No expiration)
Wastewater Discharge Permit	DENR		In process	For preparation of Plans and Drawings. Target completion of registration is on or before December 2022.
<i>Visayas (G-Hernandez LESS)</i>				
Online Hazwaste Generator Registration	DENR	OL-GR-R7-12-003163	Aug 18, 2020	N/A (No expiration)
Online PCB Registration	DENR	CCO-PCB-R7-NAT-108	Dec 20, 2019	N/A (No expiration)
Wastewater Discharge Permit	DENR		In process	In process with EMB. Target completion of registration is on or before December 2021.
ECC	DENR		N/A	N/A (No expiration)
<i>Visayas (Guadalupe CTS)</i>				
Online Hazwaste Generator Registration	DENR	OL-GR-R8-64-004225	Sep 09, 2020	N/A (No expiration)
NWRB Permit	NWRB	WP No.024042	Dec 31, 2020	Dec 31, 2021

Name of License / Permit	Issuing Regulatory Body	License / Permit No.	Issue Date	Expiry Date
ECC	DENR	ECC-96E-07BO-031	May 10, 1996	N/A (No expiration)
Wastewater Discharge Permit	DENR	DP-RO8-21-00974	Feb 16, 2021	Feb 16, 2022
<i>Visayas (HVDC-OCS)</i>				
Online Hazwaste Generator Registration	DENR	OL-GR-R8-37-003949	Aug 21, 2020	N/A (No expiration)
Online PCB Registration	DENR	CCO-PCB-R8-NGC-28	Nov 04, 2015	N/A (No expiration)
Permit to Operate	DENR	POA-2019-E-0837-0146	May 24, 2019	May 24, 2024
Wastewater Discharge Permit	DENR	DP-R08-20-03412	Aug 17, 2020	Aug 17, 2021 (Ongoing procurement of siphoning services as part of the renewal requirements)
ECC	DENR	PTL & SCS Project	Jun 01, 1992	N/A (No expiration)
NWRB Permit	NWRB		In process	For securing of drilling data for deep well.
<i>Visayas (Isabel SS)</i>				
Online Hazwaste Generator Registration	DENR	OL-GR-R8-37-003739	Jul 09, 2020	N/A (No expiration)
Online PCB Registration	DENR	CCO-PCB-R8-NAT-29	Nov 04, 2015	N/A (No expiration)
Permit to Operate	DENR	18-POA-F-0837-0143	Jun 07, 2018	Jun 07, 2023
Wastewater Discharge Permit	DENR	DP-R08-20-06045	Dec 04, 2020	Dec 04, 2021 (Ongoing procurement of siphoning services as part of the requirements for renewal; target completion of renewal is on or before November 2021)
ECC	DENR	UO/TI 138kV TL p	May 29, 2015	N/A (No expiration)
<i>Visayas (Ivisan RS)</i>				
Online Hazwaste Generator Registration	DENR	EMBR6--1345200-33003	Sep 22, 2020	N/A (No expiration)
Permit to Operate	DENR	18-POA--J-0619-234	Sep 17, 2018	Oct 15, 2023
ECC	DENR	0606-0718-243-120	Aug 24, 2007	N/A (No expiration)
Wastewater Discharge Permit	DENR		In process	Ongoing preparation of Plans and Drawings. Target completion of registration is on or before December 2022.
<i>Visayas (Jagna MWRS)</i>				
Online Hazwaste Generator Registration	DENR	M-GR-R7-12-00345	Jun 27, 2019	N/A (No expiration)
Permit to Operate	DENR	POA-20-A-071225-015	Apr 15, 2020	Jan 21, 2025
ECC	DENR	CNC-CO-1105-0006	May 27, 2011	N/A (No expiration)

Name of License / Permit	Issuing Regulatory Body	License / Permit No.	Issue Date	Expiry Date
Wastewater Discharge Permit	DENR		In process	In process with EMB. Target completion of registration is on or before December 2021
<i>Visayas (Jordan (Guimaras) RS)</i>				
Online Hazwaste Generator Registration	DENR	EMBR6-1345200-43706	Oct 22, 2020	N/A (No expiration)
Permit to Operate	DENR	17-POA-G-0604-86	Dec 06, 2017	Jul 15, 2022
ECC	DENR	CNC-R06-1309-0022	Sep 09, 2013	N/A (No expiration)
Wastewater Discharge Permit	DENR		In process	For preparation of Plans and Drawings. Target completion of registration is on or before December 2022.
<i>Visayas (Kabankalan SS)</i>				
Online Hazwaste Generator Registration	DENR	OL-GR-R6-45-004175	Sep 18, 2020	N/A (No expiration)
Permit to Operate	DENR	19-POA-L-0645-292	Mar 28, 2019	Dec 15, 2023
NWRB Permit	NWRB	022941	Nov 01, 2020	Nov 01, 2021 (For processing of annual payment in October 2021)
CNC	DENR	CNC-CO-1005-0027	May 27, 2010	N/A (No expiration)
Wastewater Discharge Permit	DENR		In process	Ongoing preparation of Plans and Drawings. Target completion of registration is on or before December 2021.
<i>Visayas (Lapulapu GIS)</i>				
Online Hazwaste Generator Registration	DENR	M-GR-R7-22-03809	May 16, 2019	N/A (No expiration)
Permit to Operate	DENR	POA-19-K-072251-408	Apr 16, 2019	Feb 05, 2024
ECC	DENR	ECC-RO7-1310-0245	Sep 07, 2017	N/A (No expiration)
Online PCB Registration	DENR		In process	Target completion of registration is on or before December 2021.
Wastewater Discharge Permit	DENR		In process	In process with EMB. Target completion of registration is on or before December 2021.
<i>Visayas (Leyte ACC)</i>				
Online Hazwaste Generator Registration	DENR	OL-GR-R8-37-003700	Oct 09, 2020	N/A (No expiration)
Permit to Operate	DENR	POA-2019-E-0837-0148	May 24, 2019	May 24, 2024
Wastewater Discharge Permit	DENR		N/A	Oct 29, 2021 (Ongoing preparation of Purchase Requisition for siphoning services to comply with permit renewal requirement)
<i>Visayas (Loon MWRS)</i>				
Online Hazwaste Generator Registration	DENR	OL-GR-R7-12-012665	May 27, 2021	N/A (No expiration)

Name of License / Permit	Issuing Regulatory Body	License / Permit No.	Issue Date	Expiry Date
Permit to Operate	DENR	PTO-OL-R07-2021-03554-R	May 27, 2021	Sep 27, 2025
Wastewater Discharge Permit	DENR	DP-R07-21-01508	Mar 14, 2021	Mar 14, 2026
ECC	DENR	ECC-94K-07CE-098	Dec 08, 1994	N/A (No expiration)
<i>Visayas (Loon MWRS 25 kVa)</i>				
Permit to Operate	DENR		In process	New Genset (Contractor to secure the permit under the Contractor's TOR).
<i>Visayas (Lugo LESS)</i>				
Online Hazwaste Generator Registration	DENR		In process	Target completion of registration is on or before November 2021.
Online PCB Registration	DENR		In process	Target completion of registration is on or before November 2021.
Wastewater Discharge Permit	DENR		In process	Ongoing preparation of Plans and Drawings. Target completion of registration is on or before December 2021.
ECC	DENR		N/A	N/A (No expiration)
<i>Visayas (Maasin SS)</i>				
Online Hazwaste Generator Registration	DENR	OL-GR-R8-64-003650	Sep 07, 2020	N/A (No expiration)
Online PCB Registration	DENR	CCO-PCB-R8-NGC-34	Nov 04, 2015	N/A (No expiration)
Permit to Operate	DENR	POA-2019-E-0864-0147	May 24, 2019	May 24, 2024
Wastewater Discharge Permit	DENR	DP-R08-20-05290	Nov 10, 2020	Nov 10, 2021 (Ongoing preparation of Purchase Requisition for siphoning services to comply with permit renewal requirement.)
NWRB Permit	NWRB	WP No. 024043	Dec 31, 2020	Dec 31, 2021 (For processing of annual payment fee in September 2021)
ECC	DENR	Leyte - Bohol IP Stage 2	Mar 18, 2002	N/A (No expiration)
<i>Visayas (Mabinay SS)</i>				
Online Hazwaste Generator Registration	DENR	OL-GR-R7-46-005003	Sep 11, 2020	N/A (No expiration)
Online PCB Registration	DENR	CCO-PCB-R18-MAB-17	-	N/A (No expiration)
Wastewater Discharge Permit	DENR	DP-R07-20-03244	Feb 08, 2020	Feb 08, 2025
ECC	DENR	CNC-OL-R07-2019-11-01636	Nov 15, 2019	N/A (No expiration)
Permit to Operate	DENR	PTO-OL-RO7-2021-02549-R	April 28, 2021	April 28, 2026
NWRB Permit	NWRB	022076	Jul 01, 2020	N/A (No expiration)
<i>Visayas (Magdugo SS)</i>				
Online Hazwaste Generator Registration	DENR	GR-R7-22-00618	Apr 18, 2017	N/A (No expiration)

Name of License / Permit	Issuing Regulatory Body	License / Permit No.	Issue Date	Expiry Date
Wastewater Discharge Permit	DENR	DP-R07-19-03387	Oct 26, 2019	Oct 26, 2021 (Ongoing preparation of Purchase Requisition for siphoning services to comply with permit renewal requirement)
ECC	DENR	ECC-RO7-1507-0148	Apr 07, 2021	N/A (No expiration)
Online PCB Registration	DENR		In process	Target completion of registration is on or before December 2021.
Permit to Operate	DENR	POA-18-J-072253-038	Mar 19, 2018	Jan 04, 2021 (Filed manual application prior to expiration; Online renewal application with new DENR requirements filed on Jan 6, 2021; under DENR evaluation)
<i>Visayas (Malay SS (Boracay))</i>				
Online Hazwaste Generator Registration	DENR	M-GR-R6-04-00888	Apr 29, 2019	N/A (No expiration)
Online PCB Registration	DENR		In process	For securing of ownership documents for Malay SS (co-located with Cooperative (AKELCO)).
<i>Visayas (Mandaue GIS)</i>				
Online Hazwaste Generator Registration	DENR	GR-R7-22-01014	Jun 28, 2018	N/A (No expiration)
Online PCB Registration	DENR	CCO-PCB-R7-NAT-75	Aug 12, 2016	N/A (No expiration)
Permit to Operate	DENR	POA-18-J-072252-640	Jul 30, 2018	Oct 07, 2022
ECC	DENR	ECC 07 02 01-28 0013 207	Jan 28, 2002	N/A (No expiration)
Wastewater Discharge Permit	DENR		In process	Ongoing preparation of Plans and Drawings. Target completion of registration is on or before December 2021.
Online Hazwaste Generator Registration	DENR		In process	Target completion of registration is on or before November 2021.
Online PCB Registration	DENR		In process	Target completion of registration is on or before December 2021
Wastewater Discharge Permit	DENR		In process	Ongoing preparation of Plans and Drawings. Target completion of registration is on or before December 2021.
ECC	DENR			N/A (No expiration)
<i>Visayas (Minglanilla (Majic) MWRS)</i>				
Online Hazwaste Generator Registration	DENR	M-GR-R7-22-04373	Oct 07, 2019	N/A (No expiration)
Permit to Operate	DENR	POA-19-J-072228-023	Nov 04, 2019	Dec 13, 2021
ECC	DENR	ECC-94K-07CE-098	Dec 08, 1994	N/A (No expiration)
Wastewater Discharge Permit	DENR		In process	In process with EMB. Target completion of registration is on or before December 2021.

Name of License / Permit	Issuing Regulatory Body	License / Permit No.	Issue Date	Expiry Date
<i>Visayas (Murcia (Calandog RS))</i>				
Online Hazwaste Generator Registration	DENR	OL-GR-R6-45-005927	Oct 23, 2020	N/A (No expiration)
ECC	DENR	0695-0912-442-207A	Sep 15, 1995	N/A (No expiration)
Wastewater Discharge Permit	DENR		In process	For preparation of Plans and Drawings. Target completion of registration is on or before December 2022.
<i>Visayas (Murcia (Calandog RS) #1)</i>				
Permit to Operate	DENR	PTO-OL-RO6-2020-02158-R	Nov 04, 2020	Jan 04, 2025
<i>Visayas (Murcia (Calandog RS) #2)</i>				
Permit to Operate	DENR	18-POA-J-0645-957	Nov 15, 2018	Dec 15, 2023
<i>Visayas (Murcia Repeater Station)</i>				
Special Use Agreement on Protected Areas	DENR	MOA SAPA Canlandog RS	Jun 13, 2015	Jan 02, 2031
Special Use Agreement on Protected Areas	DENR		In process	In process with DENR-NNNP.
<i>Visayas (Nabas SS)</i>				
Online Hazwaste Generator Registration	DENR	EMBR6-8832100-25954	Aug 24, 2020	N/A (No expiration)
Online PCB Registration	DENR	-	May 26, 2015	N/A (No expiration)
Permit to Operate	DENR	18-POA-J-0604-415	Aug 06, 2018	Oct 15, 2023
ECC	DENR	0606-0718-243-120	Aug 24, 2007	N/A (No expiration)
Wastewater Discharge Permit	DENR		In process	For preparation of Plans and Drawings. Target completion of registration is on or before December 2022.
NWRB Permit	NWRB	WP 024206	Jun 30, 2020	N/A (No expiration)
<i>Visayas (Naga (Visayas) Substation)</i>				
Special Tree Cutting Permit	DENR	Tree Cutting Permit No. 07-06052018-000000862	Jun 14, 2018	N/A. Tree cutting activity completed.
<i>Visayas (Naga SS)</i>				
Online Hazwaste Generator Registration	DENR	M-GR-R7-22-04195	Jul 17, 2019	N/A (No expiration)
ECC	DENR	R07-0804-0223-207	Feb 20, 2009	N/A (No expiration)
Online PCB Registration	DENR		In process	Target completion of registration is on or before December 2021
Wastewater Discharge Permit	DENR		In process	Ongoing preparation of Plans and Drawings. Target completion of registration is on or before December 2021.
<i>Visayas (Negros ACC)</i>				

Name of License / Permit	Issuing Regulatory Body	License / Permit No.	Issue Date	Expiry Date
Permit to Operate	DENR	19-POA-A-0645-1120	Mar 27, 2019	Jan 15, 2024
ECC	DENR	0604-115-778-120	Jul 13, 2005	N/A (No expiration)
<i>Visayas (Northern Panay Backbone TL (Panitan-Nabas 138kV T/L))</i>				
Special Land Use Permit	DENR	SLUP # 06-2009	Nov 12, 2009	Nov 17, 2012 (SLUP conversion to FLAG in process with DENR)
<i>Visayas (Ormoc SS)</i>				
Online Hazwaste Generator Registration	DENR	OL-GR-R8-37-003700	Oct 09, 2020	N/A (No expiration)
Online PCB Registration	DENR	CCO-PCB-R8-NAT-31	Nov 04, 2015	N/A (No expiration)
Wastewater Discharge Permit	DENR	DP-R08-20-05027	Oct 29, 2020	Oct 29, 2021 (Ongoing preparation of Purchase Requisition for siphoning services to comply with permit renewal requirement)
ECC	DENR	OB 138kV TLP	Aug 12, 2012	N/A (No expiration)
NWRB Permit	NWRB	CWP No. 09-20-17-072	Jan 18, 2017	Jan 18, 2018 (Filed manual application prior to expiration; Online renewal application with new NWRD requirements filed on May 11, 2021; under NWRB evaluation)
<i>Visayas (Ormoc - Babatngon 138 kV TL)</i>				
Special Land Use Permit	DENR	R8-CL01-160228	Feb 4, 2015	Feb 28, 2016 (Ongoing securing of data for the processing of FLAG conversion)
<i>Visayas (Pajo LESS)</i>				
Online PCB Registration	DENR	CCO-PCB-R7-NAT-90	05-Dec-16	N/A (No expiration)
Online Hazwaste Generator Registration	DENR		In process	Target completion of registration is on or before November 2021
Wastewater Discharge Permit	DENR		In process	Ongoing preparation of Plans and Drawings. Target completion of registration is on or before December 2021.
NWRB	NWRB Permit		In process	For securing of additional documents needed for reapplication. Target completion of registration is on or before December 2021.
ECC	DENR		In process	N/A (No expiration)
<i>Visayas (Palompon RS)</i>				
Online Hazwaste Generator Registration	DENR	M-GR-R8-37-00186	May 09, 2019	N/A (No expiration)
Permit to Operate	DENR	POA-2019-I-0837-0300	Sep 13, 2019	Sep 02, 2024
ECC	DENR	With ECC no assigned number	Feb 04, 1997	N/A (No expiration)
Wastewater Discharge Permit	DENR		In process	For preparation of Plans and Drawings. Target completion of

Name of License / Permit	Issuing Regulatory Body	License / Permit No.	Issue Date	Expiry Date
				registration is on or before December 2022.
<i>Visayas (Panay ACC)</i>				
Online Hazwaste Generator Registration	DENR	EMBR6--8832100-25023	Aug 16, 2020	N/A (No expiration)
Permit to Operate	DENR	16-POA-C-0630-1531	Sep 22, 2016	Mar 22, 2022
ECC	DENR	0608-0513-095-120A	Jul 22, 2010	N/A (No expiration)
Wastewater Discharge Permit	DENR		In process	For preparation of Plans and Drawings. Target completion of registration is on or before December 2022 (co-located with Sta. Barbara Substation).
NWRB Permit	NWRB	WP 023302	Jun 30, 2020	N/A (No expiration)
<i>Visayas (Panit-An RS)</i>				
ECC	DENR	0606-0718-243-120	Aug 24, 2007	N/A (No expiration)
<i>Visayas (Panit-An SS)</i>				
Online Hazwaste Generator Registration	DENR	EMBR6-8832100-25964	Aug 24, 2020	N/A (No expiration)
Online PCB Registration	DENR	CCO-PCB-R6-NAT-80	May 06, 2015	N/A (No expiration)
Permit to Operate	DENR	17-POA-I-0619-206	Feb 14, 2017	Sep 15, 2022
NWRB Permit	NWRB	WP 023301	Sep 30, 2020	Sep 30, 2021 (For payment of annual fee in September 2021)
ECC	DENR	0606-0718-243-120	Aug 24, 2007	N/A (No expiration)
Wastewater Discharge Permit	DENR		In process	For preparation of Plans and Drawings. Target completion of registration is on or before December 2022.
<i>Visayas (Paranas SS)</i>				
Online Hazwaste Generator Registration	DENR	OL-GR-R8-60-003690	Jul 09, 2020	N/A (No expiration)
Online PCB Registration	DENR	CCO-PCB-R8-NAT-32	Nov 04, 2015	N/A (No expiration)
Permit to Operate	DENR	POA-2019-F-0860-0164	Jun 07, 2019	Jun 07, 2024
Wastewater Discharge Permit	DENR	DP-R08-20-06047	Dec 04, 2020	Dec 04, 2021 (Ongoing procurement of siphoning services on or before November 2021)
ECC	DENR	WC 138kV TLP	Sep 16, 2005	N/A (No expiration)
<i>Visayas (Pondol CTS)</i>				
Permit to Operate	DENR	PTO-OL-R07-2021-03598-R	May 27, 2021	May 27, 2026
ECC	DENR	(07 06 12 - 6 258207	Dec 06, 2006	N/A (No expiration)
Wastewater Discharge Permit	DENR		In process	For preparation of Plans and Drawings. Target completion of

Name of License / Permit	Issuing Regulatory Body	License / Permit No.	Issue Date	Expiry Date
				registration is on or before December 2022.
<i>Visayas (Quiot SS)</i>				
Online Hazwaste Generator Registration	DENR	M-GR-R7-22-04097	Jun 25, 2019	N/A (No expiration)
Online PCB Registration	DENR	CCO-PCB-R7-NAT-76	Aug 12, 2016	N/A (No expiration)
Permit to Operate	DENR	POA-20-A-072249-221	Jan 09, 2020	Jan 09, 2023
ECC	DENR	ECC 07 03 08-20 0030 207	Oct 20, 2003	N/A (No expiration)
Wastewater Discharge Permit	DENR		In process	In process with EMB. Target completion of registration is on or before December 2021.
NWRB	NWRB Permit		In process	For securing of additional documents needed for reapplication. Target completion of registration is on or before December 2021.
<i>Visayas (Samboan SS/CTS)</i>				
Online Hazwaste Generator Registration	DENR	GR-R7-22-01017	Jul 05, 2018	N/A (No expiration)
Online PCB Registration	DENR	CCO-PCB-R7-NAT-77	Aug 12, 2016	N/A (No expiration)
ECC	DENR	ECC 07 06 12-06 258 207	Dec 06, 2006	N/A (No expiration)
Wastewater Discharge Permit	DENR		In process	Ongoing preparation of Plans and Drawings. Target completion of registration is on or before December 2021.
NWRB	NWRB Permit		In process	For securing of drilling data for deep well.
Permit to Operate	DENR	PTO-OL-RO7-2021-07124-R	Sep 08, 2021	Sept 08, 2026
<i>Visayas (San Carlos Switching Station)</i>				
CNC	DENR	CNC-OL-R06-2020-01-00092	Jan 20, 2020	N/A (No expiration)
<i>Visayas (San Carlos-Calatrava 69 KV TL)</i>				
CNC	DENR	CNC-OL-R06-2020-03-00339	Mar 11, 2020	N/A (No expiration)
<i>Visayas (San Jose de Buenavista SS (Antique))</i>				
Online Hazwaste Generator Registration	DENR	EMBR6-8832100-25964	Aug 24, 2020	N/A (No expiration)
ECC	DENR	ECC 0604-1004-678-120 0608-0513-095-120A	Nov 15, 2004 Jul 22, 2010	N/A (No expiration)
Wastewater Discharge Permit	DENR		In process	For preparation of Plans and Drawings. Target completion on or before December 2022.

Name of License / Permit	Issuing Regulatory Body	License / Permit No.	Issue Date	Expiry Date
NWRB Permit	NWRB		In process	For Contractor processing under TOR prior to turnover.
<i>Visayas (Sibonga LESS)</i>				
Online Hazwaste Generator Registration	DENR		In process	Target completion of registration is on or before November 2021.
Online PCB Registration	DENR		In process	Target completion of registration is on or before December 2021.
Wastewater Discharge Permit	DENR		In process	Ongoing preparation of Plans and Drawings. Target completion of registration is on or before December 2021.
ECC	DENR		N/A	N/A (No expiration)
<i>Visayas (Sipalay SS)</i>				
Online Hazwaste Generator Registration	DENR	OL-GR-R6-45-006244	Oct 02, 2020	N/A (No expiration)
Permit to Operate	DENR	19-POA-L-0645-293	Mar 27, 2019	Dec 15, 2023
NWRB Permit	NWRB	022940	Nov 01, 2020	Nov 01, 2021
ECC	DENR	0694-0414-115-207A	Aug 29, 1994	N/A (No expiration)
Wastewater Discharge Permit	DENR		In process	For preparation of Plans and Drawings. Target completion of registration is on or before December 2022.
<i>Visayas (Siquijor MWRS)</i>				
Online Hazwaste Generator Registration	DENR	OL-GR-R7-61-014333	Apr 13, 2021	N/A (No expiration)
<i>Visayas (Siquijor MWRS 12.5 kVA)</i>				
ECC	DENR	ECC-94K-07CE-098	Dec 08, 1994	N/A (No expiration)
Wastewater Discharge Permit	DENR		In process	In process with EMB. Target completion of registration is on or before December 2021.
<i>Visayas (Siquijor MWRS 25 kVA)</i>				
Permit to Operate	DENR		In process	New Genset (under Contractor's TOR).
<i>Visayas (Siquijor MWRS 30 kVA)</i>				
Permit to Operate	DENR	PTO-OL-R07-2021-03560-R	May 27, 2021	May 27, 2026
<i>Visayas (Siquijor Repeater Station)</i>				
Special Land Use Permit (SLUP)	DENR		In process	Ongoing preparation of documentary requirements.
<i>Visayas (Slope protection of Tower #172 along Ormoc - Babatgon 138kV TL)</i>				
CNC	DENR	CNC #CNC-OL-R08-2018-06-00435	Jun 08, 2018	N/A (No expiration)
<i>Visayas (Slope protection of Tower #174 along Ormoc - Babatgon 138kV TL)</i>				
CNC	DENR	CNC #CNC-OL-R08-2018-07-00537	Jul 05, 2018	N/A (No expiration)
<i>Visayas (Slope protection of Tower #179 along Ormoc - Babatgon 138kV TL)</i>				

Name of License / Permit	Issuing Regulatory Body	License / Permit No.	Issue Date	Expiry Date
CNC	DENR	CNC #CNC-OL-R08-2018-06-00437	Jun 08, 2018	N/A (No expiration)
<i>Visayas (Slope protection of Tower #188 along Ormoc - Babatgon 138kV TL)</i>				
CNC	DENR	CNC #CNC-OL-R08-2018-06-00436	Jun 08, 2018	N/A (No expiration)
<i>Visayas (Slope protection of Tower #225 along Ormoc - Babatgon 138kV TL)</i>				
CNC	DENR	CNC #CNC-OL-R08-2018-06-00438	Jun 08, 2018	N/A (No expiration)
<i>Visayas (Sta. Barbara SS)</i>				
Online Hazwaste Generator Registration	DENR	EMBR6--8832100-25023	Aug 16, 2020	N/A (No expiration)
Online PCB Registration	DENR	CCO-PCB-R6-NAT-27	May 06, 2015	N/A (No expiration)
Permit to Operate	DENR	19-POA-C-0630-484	Apr 03, 2019	Apr 15, 2024
ECC	DENR	0608-0513-095-120A	Jul 22, 2010	N/A (No expiration)
Wastewater Discharge Permit	DENR		In process	For preparation of Plans and Drawings. Target completion of registration is on or before December 2022.
NWRB Permit	NWRB	WP 023302	Jun 30, 2020	N/A (No expiration)
<i>Visayas (Sta. Rita SS)</i>				
Online Hazwaste Generator Registration	DENR	OL-GR-R8-60-003694	Oct 09, 2020	N/A (No expiration)
Online PCB Registration	DENR	CCO-PCB-R8-NGC-37	Dec 28, 2015	N/A (No expiration)
CNC	DENR	CNC-CO-1208-0005	Aug 01, 2012	N/A (No expiration)
Wastewater Discharge Permit	DENR		In process	For Contractor processing under TOR prior to turnover.
<i>Visayas (Tabango SS)</i>				
Online Hazwaste Generator Registration	DENR	OL-GR-R8-37-00353	Sep 14, 2020	N/A (No expiration)
Online PCB Registration	DENR	CCO-PCB-R8-NGC-33	Nov 04, 2015	N/A (No expiration)
Permit to Operate	DENR	PTO-OL-R08-2020-01193	Sep 28, 2020	Sep 28, 2025
Wastewater Discharge Permit	DENR	DP-R08-20-05379	Nov 13, 2020	Nov 13, 2021 (Ongoing preparation of Purchase Requisition for siphoning services to comply with permit renewal requirement)
NWRB Permit	NWRB	WP No. 023969	Dec 31, 2020	Dec 31, 2021
ECC	DENR	LCIUP	Mar 22, 2004	N/A (No expiration)
<i>Visayas (Tagb. SS/Bohol ACC)</i>				
Online Hazwaste Generator Registration	DENR	M-GR-R7-12-00346	Jun 27, 2019	N/A (No expiration)

Name of License / Permit	Issuing Regulatory Body	License / Permit No.	Issue Date	Expiry Date
Permit to Operate	DENR	POA-20-C-071247-061	Apr 02, 2020	May 14, 2025
ECC	DENR	CNC R07-0808-0233-999 ECC-94K-07CE-098	Apr 14, 2010 Dec 08, 1994	N/A (No expiration)
Online PCB Registration	DENR		In process	Target completion of registration is on or before December 2021
Wastewater Discharge Permit	DENR		In process	In process with EMB. Target completion of registration is on or before December 2021.
<i>Visayas (Tangalan (Jawili MWRS))</i>				
Online Hazwaste Generator Registration	DENR	EMBR6-1345200-27430	Aug 28, 2020	N/A (No expiration)
Permit to Operate	DENR	18-POA-J-0604-373	Nov 06, 2018	Oct 15, 2023
ECC	DENR	0606-0718-243-120	Aug 24, 2007	N/A (No expiration)
Wastewater Discharge Permit	DENR		In process	For preparation of Plans and Drawings. Target completion of registration is on or before December 2022.
<i>Visayas (Toledo SS)</i>				
ECC	DENR	ECC-R07-1211-0306	Feb 26, 2013	N/A (No expiration)
Online Hazwaste Generator Registration	DENR		In process	Target completion of registration is on or before November 2021.
Online PCB Registration	DENR		In process	Target completion of registration is on or before December 2021.
Wastewater Discharge Permit	DENR		In process	Ongoing preparation of Plans and Drawings. Target completion of registration is on or before December 2021.
<i>Visayas (Tongonan Repeater Stn.)</i>				
ECC	DENR	-	Feb 04, 1997	N/A (No expiration)
Wastewater Discharge Permit	DENR		In process	Ongoing preparation of Plans and Drawings. Target completion of registration is on or before December 2021.
<i>Visayas (Trinidad CBS)</i>				
Permit to Operate	DENR	POA-20-D-071234-025	Apr 25, 2020	Apr 25, 2025
NWRB Permit	NWRB	Water Permit No. 022774	Feb 19, 2018	Dec 31, 2021 (Ready for payment of renewal fees; Manager's check already available. Target completion of renewal is on or before October 2021)
ECC	DENR	ECC-96E-07BO-031	Nov 09, 2010	N/A (No expiration)
Online PCB Registration	DENR		In process	Target completion of registration is on or before December 2021.

Name of License / Permit	Issuing Regulatory Body	License / Permit No.	Issue Date	Expiry Date
Wastewater Discharge Permit	DENR		In process	In process with EMB. Target completion of registration is on or before December 2021.
<i>Visayas (Ubay SS)</i>				
Online Hazwaste Generator Registration	DENR	OL-GR-R7-12-012864	Feb 04, 2021	N/A (No expiration)
Online PCB Registration	DENR	CCO-PCB-R7-NGC-68	Jun 07, 2016	N/A (No expiration)
Permit to Operate	DENR	POA-20-B-071245-049	Apr 16, 2020	Feb 24, 2025
NWRB Permit	NWRB	Water Permit No. 022710	Feb 19, 2018	Dec 31, 2021
ECC	DENR	ECC-96E-07BO-031	Nov 09, 2010	N/A (No expiration)
Wastewater Discharge Permit	DENR		In process	In process with EMB. Target completion of registration is on or before December 2021.
<i>Visayas (VPC Complex/VNCC)</i>				
Online Hazwaste Generator Registration	DENR	OL-GR-R7-22-017485	Jun 04, 2021	N/A (No expiration)
Permit to Operate	DENR	POA-18-J-072249-252	Nov 16, 2018	Oct 18, 2023
ECC	DENR	ECC-070405-170250-220	May 17, 2004	N/A (No expiration)
Wastewater Discharge Permit	DENR		In process	Ongoing preparation of Plans and Drawings. Target completion of registration is on or before December 2021.
NWRB	NWRB Permit		In process	For securing of additional documents needed for reapplication. Target completion of registration is on or before December 2021.
<i>Visayas (West Poblacion CBS)</i>				
Online Hazwaste Generator Registration	DENR	M-GR-R7-12-00477	Jan 22, 2020	N/A (No expiration)
Permit to Operate	DENR	POA-20-A-071222-034	Jan 10, 2020	Jan 10, 2025
ECC	DENR	ECC-96E-07BO-031	Nov 09, 2010	N/A (No expiration)
Online PCB Registration	DENR		In process	Target completion of registration is on or before December 2021.
Wastewater Discharge Permit	DENR		In process	In process with EMB. Target completion of registration is on or before December 2021.
<i>Mindanao (Agus 2 SS)</i>				
Permit to Operate	DENR	2305 POA MENRE BARMM II-043	May 25, 2021	May 25, 2023
Wastewater Discharge Permit	DENR	2305 WDP MENRE BARMM II-011	May 25, 2021	May 25, 2023

Name of License / Permit	Issuing Regulatory Body	License / Permit No.	Issue Date	Expiry Date
Hazwaste Generator ID Registration	DENR	CR-R-II-001	Jun 25, 2012	N/A (No expiration)
<i>Mindanao (Agus 5 Switchyard)</i>				
Hazwaste Generator ID Registration	DENR	GR-R10-35-0004	May 27, 2016	N/A (No expiration)
Online PCB Registration	DENR	CCO-PCB-R10-NAT-27	May 31, 2021	N/A (No expiration)
<i>Mindanao (Agus 6 SS)</i>				
Permit to Operate	DENR	PTO-OL-REGION X-2021-00382-R	Jan 25, 2021	Jan 25, 2026
Hazwaste Generator ID Registration	DENR	GR-R10-35-00037	May 25, 2016	N/A (No expiration)
Online PCB Registration	DENR	CCO-PCB-R10-NAT-12	May 31, 2021	N/A (No expiration)
Permit to Operate	DENR	PTO-OL-REGION X-2021-00382-R	Jan 25, 2021	Jan 25, 2026
<i>Mindanao (Aurora SS)</i>				
Permit to Operate	DENR	2018-POA-L-0973-0035	Jan 3, 2018	Dec 22, 2022
Wastewater Discharge Permit	DENR	DP-R09-20-05605	Nov 19, 2020	Nov 19, 2025
NWRB Permit	NWRB	WP-24468	-	N/A (No expiration)
Hazwaste Generator ID Registration	DENR	GR-R9-73-00017	May 28, 2015	N/A (No expiration)
Online PCB Registration	DENR	CCO-PCB-R9-NAT-5	Jan 10, 2016	N/A (No expiration)
<i>Mindanao (Balo-1 SS)</i>				
Permit to Operate	DENR	2018-POA-B-1035-1942	Feb 02, 2018	Feb 14, 2023
Permit to Operate	DENR	2018-POA-B-1043-688	Feb 02, 2018	Feb 26, 2023
NWRB Permit	NWRB	WP-022964	-	N/A (No expiration)
Hazwaste Generator ID Registration	DENR	GR-R10-35-00038	May 25, 2016	N/A (No expiration)
Online PCB Registration	DENR	CCO-PCB-R10-NAT-16	May 31, 2021	N/A (No expiration)
<i>Mindanao (Bislig SS)</i>				
Permit to Operate	DENR	2017-POA-J-1367-243	Oct 26, 2017	Oct 26, 2022
NWRB Permit	NWRB	WP-024292	-	N/A (No expiration)
Hazwaste Generator ID Registration	DENR	GR-R13-68-00004	Sep 08, 2015	N/A (No expiration)
Online PCB Registration	DENR	CCO-PCB-R13-NAT-68	Aug 14, 2015	N/A (No expiration)
<i>Mindanao (Bucagan Hill RS)</i>				
Permit to Operate	DENR	2017-POA-I-1042-669	Sep 25, 2017	Sep 01, 2022
Permit to Operate	DENR	2014-POA-I-1042-1168	Oct 16, 2020	Oct 16, 2021
Hazwaste Generator ID Registration	DENR	OL-GR-R10-42-017396	Jun 02, 2021	N/A (No expiration)

Name of License / Permit	Issuing Regulatory Body	License / Permit No.	Issue Date	Expiry Date
<i>Mindanao (Bunawan SS)</i>				
Permit to Operate	DENR	2018-POA-F-1124-2225	May 23, 2019	May 29, 2024
Wastewater Discharge Permit	DENR	DP-R11-21-04132	Jul 07, 2021	Jul 07, 2026
NWRB Permit	NWRB	WP-22985	-	N/A (No expiration)
Hazwaste Generator ID Registration	DENR	GR-R11-24-00037	Jan 12, 2016	N/A (No expiration)
Online PCB Registration	DENR	CCO-PCB-R11-NAT-26	Jun 29, 2015	N/A (No expiration)
CNC	DENR	CNC-OL-R11-2019-07-00478	Jul 29, 2019	N/A (No expiration)
<i>Mindanao (Butuan SS)</i>				
Permit to Operate	DENR	2017-POA-J-1302-239	Oct 23, 2017	Oct 23, 2022
NWRB Permit	NWRB	WP-022934	-	N/A (No expiration)
Hazwaste Generator ID Registration	DENR	OL-GR-R13-02-006903	Nov 27, 2020	N/A (No expiration)
Online PCB Registration	DENR	CCO-PCB-R13-NAT-66	Aug 07, 2015	N/A (No expiration)
<i>Mindanao (Butuan ACC)</i>				
Permit to Operate	DENR	2015-POA-J-1367-201	Oct 02, 2015	Oct 02, 2020 (Filed manual application prior to expiration; Online renewal application with new DENR requirements filed on Aug 25, 2021; Pending permit release)
<i>Mindanao (Calumpang RS)</i>				
Permit to Operate	DENR	PTO-OL-R12-2020-02275-R	Nov 11, 2020	Nov 11, 2025
Wastewater Discharge Permit	DENR	DP-R12-19-04524	Dec 16, 2019	Dec 16, 2024
Hazwaste Generator ID Registration	DENR	M-GR-R12-63-00925	Nov 06, 2019	N/A (No expiration)
<i>Mindanao (Carmen RS)</i>				
Permit to Operate	DENR	2017-POA-F-1302-149	Jun 16, 2017	Jun 16, 2022
Hazwaste Generator ID Registration	DENR	OL-GR-R13-02-013613	Mar 16, 2021	N/A (No expiration)
<i>Mindanao (Carmen SS)</i>				
Permit to Operate	DENR	2018-POA-B-1043-686	Mar 01, 2018	Feb 26, 2023
Hazwaste Generator ID Registration	DENR	GR-R10-43-00114	Apr 22, 2016	N/A (No expiration)
<i>Mindanao (Catarman RS)</i>				
Permit to Operate	DENR	2014-POA-I-1018-1168 (4/6)	-	Sep 13, 2024
<i>Mindanao (Cugman RS)</i>				

<b>Name of License / Permit</b>	<b>Issuing Regulatory Body</b>	<b>License / Permit No.</b>	<b>Issue Date</b>	<b>Expiry Date</b>
Permit to Operate	DENR	2014-POA-i-1043-1168 (5/6)	-	Sep 13,2024
<i>Mindanao (Culaman SS)</i>				
Permit to Operate	DENR	2019-POA--B-1186-3034	Apr 01, 2019	Sep 27, 2023
Hazwaste Generator ID Registration	DENR	M-GR-R11-86-00001	May 02, 2019	N/A (No expiration)
<i>Mindanao (Damulog RS)</i>				
Permit to Operate	DENR	2014-POA-I-1013-1168	Feb 14, 2014	Sep 12, 2024
<i>Mindanao (Davao ACC)</i>				
Permit to Operate	DENR	2017-POA-F-1124-3032	Apr 05, 2019	Feb 23, 2024
<i>Mindanao (Davao SS)</i>				
Permit to Operate	DENR	2018-POA-I-1124-2225	Aug 30, 2019	Sep 20, 2024
NWRB Permit	NWRB	WP-22986	-	N/A (No expiration)
Hazwaste Generator ID Registration	DENR	GR-R11-24-00064	Apr 04, 2016	N/A (No expiration)
Online PCB Registration	DENR	CCO-PCB-R11-NAT-27	Jun 29, 2015	N/A (No expiration)
CNC	DENR	CNC-OL-R11-2019-07-00390	Jul 01, 2019	N/A (No expiration)
<i>Mindanao (District 5 Office)</i>				
Permit to Operate	DENR	2019-POA-A-1124-3007	Mar 15, 2019	Jan 31, 2024
<i>Mindanao (GenSan SS)</i>				
Permit to Operate	DENR	19-POA-C-1263-0064	Mar 01, 2019	Mar 10, 2024
Permit to Operate	DENR	18-POA-E-1263-0156	May 18, 2018	May 15, 2023
Wastewater Discharge Permit	DENR	18-WDP-E-1263-0084	May 18, 2019	May 15, 2023
NWRB Permit	NWRB	WP-022689	-	N/A (No expiration)
Hazwaste Generator ID Registration	DENR	GR-R12-63-00117	May 12, 2016	N/A (No expiration)
Online PCB Registration	DENR	CC0-PCB-R12-NAT-38	Nov 05, 2015	N/A (No expiration)
<i>Mindanao (Gingoog RS)</i>				
Permit to Operate	DENR	2014-POA-i-1043-1168 (5/6)	-	Sep 13, 2024
<i>Mindanao (GSACC)</i>				
Permit to Operate	DENR	17-POA-G-1263-0254	Jul 13, 2017	Jul 07, 2022
<i>Mindanao (IACC)</i>				

Name of License / Permit	Issuing Regulatory Body	License / Permit No.	Issue Date	Expiry Date
Permit to Operate	DENR	2017-POA-I-1035-663	Sep 25, 2017	Sep 01, 2022
Permit to Operate	DENR	PTO-OL-R10-2020-03208-R	Dec 22, 2020	Dec 22, 2021
Hazwaste Generator ID Registration	DENR	GR-R10-35-00114	May 16, 2018	N/A (No expiration)
<b>Mindanao (Iligan SS)</b>				
Permit to Operate	DENR	2018-POA-F-1035-2410	Jul 10, 2018	Jun 22, 2023
Permit to Operate	DENR	2018-POA-F-1035-690	Feb 02, 2018	Feb 26, 2023
NWRB Permit	NWRB	WP-23676	-	N/A (No expiration)
Hazwaste Generator ID Registration	DENR	GR-R10-35-00039	May 25, 2016	N/A (No expiration)
Online PCB Registration	DENR	CCO-PCB-R10-NAT-14	May 31, 2021	N/A (No expiration)
<b>Mindanao (Ilihan RS)</b>				
Permit to Operate	DENR	2017-POA-I-1043-666	Sep 25, 2017	Sep 01, 2022
Permit to Operate	DENR	2019-POA-C-1042-3166	Mar 20, 2019	Mar 20, 2024
Hazwaste Generator ID Registration	DENR	OL-GR-R10-42-017449	Jun 02, 2021	N/A (No expiration)
<b>Mindanao (Jasaan SS)</b>				
Permit to Operate	DENR	2018-POA-B-1043-684	Mar 01, 2018	Feb 14, 2023
Hazwaste Generator ID Registration	DENR	GR-R10-43-00110	Apr 22, 2016	N/A (No expiration)
<b>Mindanao (Kibawe SS)</b>				
Permit to Operate	DENR	2018-POA-B-1043-687	Mar 01, 2018	Feb 26, 2023
Hazwaste Generator ID Registration	DENR	GR-R10-13-00049	Apr 22, 2016	N/A (No expiration)
NWRB Permit	NWRB		In process	For securing additional documents needed for reapplication. Target completion of registration is on or before Dec 31, 2021
<b>Mindanao (Kidapawan SS)</b>				
Permit to Operate	DENR	18-POA-A-1247-0491	Dec 10, 2018	Jan 03, 2022
Permit to Operate	DENR	19-POA-D-1247-0063	Mar 01, 2019	Apr 10, 2024
Wastewater Discharge Permit	DENR	18-WDP-H-1247-0223	Dec 10, 2018	Aug 22, 2023
Hazwaste Generator ID Registration	DENR	GR-R12-47-00011	Oct 25, 2015	N/A (No expiration)
Online PCB Registration	DENR	CCO-PCB-R12-KID-9	Jun 25, 2015	N/A (No expiration)
<b>Mindanao (Kitanglad RS)</b>				
Permit to Operate	DENR	2017-POA-I-1042-669	Sep 25, 2017	Sep 01, 2022
<b>Mindanao (Libaylibay RS)</b>				

<b>Name of License / Permit</b>	<b>Issuing Regulatory Body</b>	<b>License / Permit No.</b>	<b>Issue Date</b>	<b>Expiry Date</b>
Permit to Operate	DENR	2011-POA-I-1182-1967	Sep 11, 2019	Sep 20, 2024
Hazwaste Generator ID Registration	DENR	M-GR-R11-82-00030	Mar 11, 2020	N/A (No expiration)
<b>Mindanao (Lugait SS)</b>				
Permit to Operate	DENR	2018-POA-B-1043-689	Feb 02, 2018	Feb 26, 2023
Hazwaste Generator ID Registration	DENR	GR-R10-43-00149	May 25, 2016	N/A (No expiration)
Online PCB Registration	DENR	CCO-PCB-R10-NAT-17	May 31, 2021	N/A (No expiration)
NWRB Permit	NWRB		In process	Application already filed (for WP Issuance)
<b>Mindanao (Lunzuran RS)</b>				
Hazwaste Generator ID Registration	DENR	OL-GR-R9-73-005798	Sep 21, 2020	N/A (No expiration)
Online PCB Registration	DENR	CCO-PCB-R9-NAT-6	Jan 10, 2016	N/A (No expiration)
<b>Mindanao (Ma. Cristina RS)</b>				
Permit to Operate	DENR	2017-POA-I-1035-662	Sep 25, 2017	Sep 01, 2022
Permit to Operate	DENR	2014-POA-I-1035-1168(3/6)	Feb 01, 2019	Sep 13, 2024
Hazwaste Generator ID Registration	DENR	GR-R10-35-00113	May 15, 2018	N/A (No expiration)
<b>Mindanao (Maco SS)</b>				
Permit to Operate	DENR	2018-POA-E-1182-2224	May 23, 2019	May 29, 2024
Wastewater Discharge Permit	DENR	DP-R11-21-03632	Jun 18, 2021	Jun 18, 2026
NWRB Permit	NWRB	WP-24447	-	N/A (No expiration)
Hazwaste Generator ID Registration	DENR	GR-R11-82-00006	Apr 04, 2016	N/A (No expiration)
Online PCB Registration	DENR	CCO-PCB-R11-NAT-12	May 19, 2015	N/A (No expiration)
CNC	DENR	CNC-OL-R11-2019-07-00434	Jul 15, 2019	N/A (No expiration)
<b>Mindanao (Mainit RS)</b>				
Permit to Operate	DENR	2016-POA-K-1302-323	Nov 14, 2016	Nov 14, 2021
Permit to Operate	DENR	2017-POA-F-1367-148	Jun 16, 2017	Jun 16, 2022
Hazwaste Generator ID Registration	DENR	DENR-16-02-0041	Sep 21, 2006	N/A (No expiration)
<b>Mindanao (Malalag RS)</b>				
Permit to Operate	DENR	2019-POA-K-1124-3470	Nov 26, 2019	Nov 26, 2024
Hazwaste Generator ID Registration	DENR	M-GR-R11-24-00218	Mar 18, 2020	N/A (No expiration)
<b>Mindanao (Manticao RS)</b>				

Name of License / Permit	Issuing Regulatory Body	License / Permit No.	Issue Date	Expiry Date
Permit to Operate	DENR	2017-POA-I-1043-664	Sep 25, 2017	Sep 01, 2022
Permit to Operate	DENR	2017-POA-I-1043-669	Sep 25, 2017	Sep 01, 2022
Permit to Operate	DENR	2018-POA-F-1043-2413	Jul 10, 2018	Jul 02, 2023
Hazwaste Generator ID Registration	DENR	M-GR-R10-43-01029	Jul 24, 2019	N/A (No expiration)
<i>Mindanao (Maramag SS)</i>				
Permit to Operate	DENR	2014-POA-E-2013-1820	-	May 13, 2024
Hazwaste Generator ID Registration	DENR	GR-R10-13-00050	Apr 22, 2016	N/A (No expiration)
NWRB Permit	NWRB		In process	For securing of additional documents needed for reapplication. Target completion of registration is on or before December 2021.
<i>Mindanao (Matanao SS)</i>				
Permit to Operate	DENR	2018-POA-K-1124-1966	Dec 02, 2019	Nov 24, 2024
NWRB Permit	NWRB	WP-21954	-	N/A (No expiration)
Hazwaste Generator ID Registration	DENR	GR-R11--24-00066	Jan 24, 2019	N/A (No expiration)
Online PCB Registration	DENR	CCO-PCB-R11-NAT-23	Jun 23, 2015	N/A (No expiration)
<i>Mindanao (Matina Hill RS)</i>				
Permit to Operate	DENR	2011-POA-I-1124-1891	May 29, 2019	Sep 20, 2024
Permit to Operate	DENR	2020-POA-I-1124-1891	Mar 02, 2020	Sep 20, 2024
Hazwaste Generator ID Registration	DENR	M-GR-R11-24-00208	Mar 10, 2020	N/A (No expiration)
<i>Mindanao (Mercedes RS)</i>				
Permit to Operate	DENR	2018-POA-J-0973-0113	Oct 30, 2018	Oct 29, 2023
Permit to Operate	DENR	2015-POA-D-0973-0124	May 22, 2020	Apr 13, 2025
Hazwaste Generator ID Registration	DENR	M-GR-R9-73-00011	Aug 09, 2019	N/A (No expiration)
<i>Mindanao (Mindanao Region)</i>				
Permit to Operate	DENR	PTO-OL-R10-2020-00900-R	Sep 16, 2020	Sep 16, 2025
NWRB Permit	NWRB	WP-22342	-	N/A (No expiration)
Hazwaste Generator ID Registration	DENR	GR-R10-35-00032	Apr 29, 2016	N/A (No expiration)
Online PCB Registration	DENR	CCO-PCB-R10-NAT-33	Apr 29, 2015	N/A (No expiration)
<i>Mindanao (Mintal RS)</i>				
Permit to Operate	DENR	2020-POA-C-1124-3494	Mar 10, 2020	Mar 10, 2025
<i>Mindanao (MSO/MRCC District Office)</i>				
Permit to Operate	DENR	2015-POA-1043-1018	Mar 10, 2020	Jan 29, 2025

Name of License / Permit	Issuing Regulatory Body	License / Permit No.	Issue Date	Expiry Date
NWRB Permit	NWRB		In process	For securing of additional documents needed for reapplication. Target completion of registration is on or before December 2021.
<i>Mindanao (Mt. Buga RS)</i>				
Permit to Operate	DENR	2015-POA-D-0973-0126	May 15, 2020	Apr 13, 2025
Permit to Operate	DENR	2017-POA-K-0973-0127	Nov 03, 2017	Oct 25, 2022
Hazwaste Generator ID Registration	DENR	M-GR-R9-73-0009	Aug 09, 2019	N/A (No expiration)
<i>Mindanao (Mt. Maligaya RS)</i>				
Permit to Operate	DENR	2015-POA-D-0973-0127	May 22, 2020	Apr 13, 2025
Permit to Operate	DENR	2017-POA-K-0983-0014	Nov 03, 2017	Oct 25, 2022
Hazwaste Generator ID Registration	DENR	M-GR-R9-83-00001	Aug 09, 2019	N/A (No expiration)
<i>Mindanao (Mt. Taguete RS)</i>				
Permit to Operate	DENR	2015-POA-D-0973-0125; 2020-POA-D-0973-0067	May 22, 2020	Apr 13, 2025
Permit to Operate	DENR	2017-POA-K-0973-0129	Mar 11, 2017	Oct 25, 2022
Hazwaste Generator ID Registration	DENR	M-GR-R9-73-00010	Aug 09, 2019	N/A (No expiration)
<i>Mindanao (Nabunturan SS)</i>				
Permit to Operate	DENR	2018-POA-K-1182-1897	Nov 24, 2019	Dec 11, 2024
Wastewater Discharge Permit	DENR	DP-R11-21-03262	Jun 04, 2021	Jun 04, 2026
NWRB Permit	NWRB	WP-24112	-	N/A (No expiration)
Hazwaste Generator ID Registration	DENR	GR-R11--82-00007	Jan 24, 2019	N/A (No expiration)
Online PCB Registration	DENR	CCO-PCB-R11-NAT-28	Jun 29, 2015	N/A (No expiration)
CNC	DENR	CNC-OL-R11-2019-07-00394	Jul 01, 2019	N/A (No expiration)
<i>Mindanao (Nagamin SS)</i>				
Permit to Operate	DENR	2015-POA-L-0983-0006	May 07, 2020	Dec 22, 2024
Wastewater Discharge Permit	DENR	DP-R09-20-05606	Nov 19, 2020	Nov 19, 2025
NWRB Permit	NWRB	WP-22875	-	N/A (No expiration)
Hazwaste Generator ID Registration	DENR	GR-R9-83-00005	May 28, 2015	N/A (No expiration)
Online PCB Registration	DENR	CCO-PCB-R9-NAT-10	Jan 10, 2016	N/A (No expiration)
<i>Mindanao (Nasipit SS)</i>				
Permit to Operate	DENR	2017-POA-J-1302-241	Oct 23, 2017	Oct 23, 2022

Name of License / Permit	Issuing Regulatory Body	License / Permit No.	Issue Date	Expiry Date
NWRB Permit	NWRB	WP-022935	-	N/A (No expiration)
Hazwaste Generator ID Registration	DENR	OL-GR-R13-02-011882	Jan 05, 2021	N/A (No expiration)
Online PCB Registration	DENR	CCO-PCB-R13-NAT-69	Aug 14, 2015	N/A (No expiration)
<i>Mindanao (Opol SS)</i>				
Permit to Operate	DENR	2018-POA-F-1043-2054	Oct 02, 2018	Mar 15, 2023
NWRB Permit	NWRB		In process	For securing of additional documents needed for reapplication. Target completion of registration is on or before December 2021
<i>Mindanao (Pikit RS)</i>				
Permit to Operate	DENR	19-POA-A-1247-0038	Feb 04, 2019	Jan 25, 2024
Wastewater Discharge Permit	DENR	DP-R12-19-04525	Dec 16, 2019	Dec 16, 2024
Hazwaste Generator ID Registration	DENR	M-GR-R12-47-00781	Nov 06, 2019	N/A (No expiration)
<i>Mindanao (Pitogo SS)</i>				
Permit to Operate	DENR	2015-POA-E-0973-0138	May 22, 2020	May 04, 2025
Wastewater Discharge Permit	DENR	DP-R09-20-05615	Nov 19, 2020	Nov 19, 2025
NWRB Permit	NWRB	WP-21997	-	N/A (No expiration)
Hazwaste Generator ID Registration	DENR	GR-R9-73-00018	May 28, 2015	N/A (No expiration)
<i>Mindanao (Placer SS)</i>				
Permit to Operate	DENR	2017-POA-J-1367-242	Oct 26, 2017	Oct 26, 2022
Hazwaste Generator ID Registration	DENR	OL-GR-R13-67-014170	Mar 16, 2021	N/A (No expiration)
Online PCB Registration	DENR	CCO-PCB-R13-NAT-70	Aug 14, 2015	N/A (No expiration)
<i>Mindanao (Polanco SS)</i>				
Wastewater Discharge Permit	DENR	DP-R09-20-05607	Nov 19, 2020	Nov 19, 2025
NWRB Permit	NWRB	CWP-09-26-18-053	-	N/A (No expiration)
Hazwaste Generator ID Registration	DENR	M-GR-R9-72-00005	Sep 03, 2019	N/A (No expiration)
<i>Mindanao (Salvacion RS)</i>				
Permit to Operate	DENR	2017-POA-F-1302-150	Jun 16, 2017	Jun 16, 2022
Permit to Operate	DENR	2016-POA-K-1302-321	Nov 14, 2016	Nov 14, 2021
Hazwaste Generator ID Registration	DENR	DENR-16-02-0100	Sep 21, 2006	N/A (No expiration)
<i>Mindanao (San Francisco SS)</i>				
Permit to Operate	DENR	2017-POA-F-1303-151	Jun 16, 2017	Jun 16, 2022
NWRB Permit	NWRB	WP-022228	-	N/A (No expiration)

Name of License / Permit	Issuing Regulatory Body	License / Permit No.	Issue Date	Expiry Date
Hazwaste Generator ID Registration	DENR	GR-R13-03-00001	Sep 08, 2015	N/A (No expiration)
Online PCB Registration	DENR	CCO-PCB-R13-NAT-71	Aug 14, 2015	N/A (No expiration)
<i>Mindanao (San Isidro RS)</i>				
Permit to Operate	DENR	2016-POA-K-1302-322	Nov 14, 2016	Nov 14, 2021
Hazwaste Generator ID Registration	DENR	DENR-16-03-0027	Sep 21, 2006	N/A (No expiration)
<i>Mindanao (Sangali RS)</i>				
Permit to Operate	DENR	2019-POA-F-0973-0043	Jun 25, 2019	Jun 25, 2024
<i>Mindanao (Signal Hill RS (Campo Ranao))</i>				
Permit to Operate	DENR	2110 POA MENRE BARMM VI-027	Jul 15, 2019	Oct 21, 2021
Wastewater Discharge Permit	DENR	2305 WDP MENRE BARMM II-010	May 25, 2021	May 25, 2023
Hazwaste Generator ID Registration	DENR		In process	Target completion of registration is on or before December 2021.
<i>Mindanao (Sultan Kudarat SS)</i>				
Permit to Operate	Ministry of Environment, Natural Resources and Energy (MENRE)	2305 POA MENRE BARMM I-043	May 25, 2021	May 25, 2023
Permit to Operate	MENRE	2305 POA MENRE BARMM I-043	May 25, 2021	May 25, 2023
Permit to Operate	MENRE	2305 POA MENRE BARMM I-043	May 25, 2021	May 25, 2023
NWRB Permit	NWRB	WP-024111	-	N/A (No expiration)
Hazwaste Generator ID Registration	DENR	CR-ARMM-1-001	Apr 22, 2017	N/A (No expiration)
Online PCB Registration	DENR	CCO-PCB-ARMM-04-01-000010	Apr 21, 2017	N/A (No expiration)
Wastewater Discharge Permit	DENR	2305 WDP BARMM I-009	May 25, 2021	May 25, 2023
<i>Mindanao (Tacurong SS)</i>				
Permit to Operate	DENR	15-POA-D-1265-109	Jul 14, 2020	Apr 10, 2025
Wastewater Discharge Permit	DENR	DP-R12-19-02585	Sep 04, 2019	Sep 04, 2024
NWRB Permit	NWRB	WP-024111	-	N/A (No expiration)

Name of License / Permit	Issuing Regulatory Body	License / Permit No.	Issue Date	Expiry Date
Hazwaste Generator ID Registration	DENR	GR-R12-63-00114	Apr 12, 2016	N/A (No expiration)
Online PCB Registration	DENR	CCO-PCB-R12-NAT-102	Jun 15, 2016	N/A (No expiration)
<i>Mindanao (Tagoloan SS)</i>				
Permit to Operate	DENR	2018-POA-1043-685	Mar 01, 2018	Feb 14, 2023
Hazwaste Generator ID Registration	DENR	GR-R10-43-00108	Apr 18, 2016	N/A (No expiration)
NWRB Permit	NWRB		In process	For securing of additional documents needed for reapplication. Target completion of registration is on or before December 2021
<i>Mindanao (Talakogon RS)</i>				
Permit to Operate	DENR	2017-POA-I-1043-666	Sep 25, 2017	Sep 01, 2022
Hazwaste Generator ID Registration	DENR	M-GR-R10-43-01028	Jul 24, 2019	N/A (No expiration)
<i>Mindanao (Toril SS)</i>				
Permit to Operate	DENR	2014-POA-I-1124-2833	Aug 30, 2019	Sep 20, 2024
Hazwaste Generator ID Registration	DENR	M-GR-R11--24-2019-00049	Jan 24, 2019	N/A (No expiration)
<i>Mindanao (Tupi RS)</i>				
Permit to Operate	DENR	PTO-OL-R12-2020-02274-R	Nov 11, 2020	Nov 11, 2025
Wastewater Discharge Permit	DENR	DP-R12-19-04523	Dec 16, 2019	Dec 16, 2024
Hazwaste Generator ID Registration	DENR	M-GR-R12-63-00926	Nov 06, 2019	N/A (No expiration)
<i>Mindanao (Villanueva SS)</i>				
Permit to Operate	DENR	2014-POA-L-1043-1562	Mar 10, 2020	Dec 22, 2024
NWRB Permit	NWRB	WP-23745	-	N/A (No expiration)
<i>Mindanao (Zamboanga ACC)</i>				
Permit to Operate	DENR	2017-POA-K-0973-0128	Nov 03, 2017	Oct 25, 2022
<i>Mindanao (Zamboanga SS)</i>				
Permit to Operate	DENR	2015-POA-L-0973-0073	May 07, 2020	Dec 22, 2024
Wastewater Discharge Permit	DENR	DP-R09-20-05604	Nov 19, 2020	Nov 19, 2025
NWRB Permit	NWRB	WP-022874	-	N/A (No expiration)
Hazwaste Generator ID Registration	DENR	GR-R9-73-00019	May 28, 2015	N/A (No expiration)
Online PCB Registration	DENR	CCO-PCB-R9-NAT-7	Jan 11, 2016	N/A (No expiration)

### 3. NGCP PERMITS AND LICENSES FOR ON-GOING PROJECTS<sup>5</sup>

Name of License / Permit	Issuing Regulatory Body	License / Permit No.	Issue Date	Expiry Date
<i>Luzon</i>				
<b>1. ECC (Environmental Compliance Certificate)</b>				
A. Marilao 230kV SS	DENR EMB Region 3	ECC-OL-R03- 2020-0299	July 7, 2020	N/A  (No expiration)
B. Hermosa-San Jose 500 KV T/L Project	DENR EMB Region 3	ECC-OL-R03- 2016-0059	April 6, 2016	N/A  (No expiration)
C. Mariveles – Hermosa 500 KV T/L Project	DENR EMB Region 3	ECC-OL-R03- 2016-0262	Nov 3, 2016	N/A  (No expiration)
D. Castillejos – Hermosa T/L Project	DENR EMB Region 3	ECC-OL-R03- 2016-0062	April 11, 2016	N/A  (No expiration)
E. San Simon 230 KV Substation Project	DENR EMB Region 3	ECC-OL-R03- 2020-0544	Nov 11, 2020	N/A  (No expiration)
F. Manila (Navotas) 230kV S/S Project (Navotas-Marilao 230kV T/L)	DENR-EMB Region 3	ECC-OL-R03- 2020-0299	July 7, 2020	July 7, 2025
G. Ambuklao-Binga 230 KV T/L Project	DENR EMB CAR	ECC-OL-CAR- 2020-0132	October 15, 2020	October 15, 2025
H. Binga-San Mauel 230 KV T/L Project	DENR EMB CAR	ECC-OL-CAR- 2020-0134	October 18, 2020	N/A  (No expiration)
I. Tuguegarao – Lal-lo (Magapit) 230 KV T/L Project (Rerouted Portion)	DENR EMB Region 2	ECC-OL-R02- 2021-0129	August 24, 2021	N/A  (No expiration)
J. Relocation of Muntinlupa-Binan Lines 3 & 4 (NCR Side)	DENR-EMB NCR	ECC-OL-NCR- 2021-0065	May 26, 2021	May 26, 2026
K. Tiwi Substation Upgrading Project	DENR-EMB Region 5	ECC-R05-1706- 0024	June 29, 2017	N/A  (No expiration)
L. L. Relocation of Muntinlupa-Binan Lines 3 & 4 (Laguna Side)	DENR-EMB Region 4A	ECC-OL-R4A- 2021-0323	July 12, 2021	July 12, 2026

<sup>5</sup> Ongoing projects consist of facilities that are in the engineering, procurement and construction stages and are not yet in use.

Name of License / Permit	Issuing Regulatory Body	License / Permit No.	Issue Date	Expiry Date
M. Taguig EHV Substation Project (S/S Portion)	DENR-EMB NCR	ECC-OL-NCR- 2017-0083	July 24, 2017	N/A  (No expiration)
N. Taguig EHV S/S Project (Taguig-Baras 500kV T/L)	DENR-EMB Region 4A	ECC-OL-R4A- 2017-0334	August 2, 2017	August 2, 2022
O. Taguig Bus-in to Muntinlupa Paco T/L	DENR-EMB NCR	ECC-OL-NCR- 2020-0002	January 2, 2020	N/A  (No expiration)
P. South Luzon S/S Upgrading Project Stage 1 (San Juan 230kV S/S)	DENR-EMB Region 4A	ECC-OL-R4A- 2021-0364	July 27, 2021	July 27, 2026
Q. South Luzon S/S Upgrading Project Stage 2 (Daraga S/S)	DENR-EMB Region 5	ECC-OL-R05- 2021-0279	October 30, 2021	N/A  (No expiration)
R. Antipolo 230 S/S Project	DENR-EMB Region IV-A	ECC-OLR4A – 2016- 0382	Nov 3, 2016	N/A  (No expiration)
S. Calamba 230 KV Substation Project	DENR EMB Region IV-A	ECC – OL –R4A- 1507-0532	Sept 1, 2015	N/A  (No expiration)
<b>2. CNC (Certificate of Non-Coverage)</b>				
A. Nagsaag-Tumana 69 KV T/L Project	DENR-EMB Region 1	CNC-OL-R01- 2021-05-01263	May 21, 2021	N/A  (No expiration)
B. Concepcion – Sta. Ignacia 69 KV T/L Project	DENR-EMB NCR	CNC-OL-R03- 2021-08-04247	August 24, 2021	N/A  (No expiration)
C. San Simon 69 kV Associated T/L Project	DENR-EMB NCR	CNC-OL-R03- 2021-08-04276	August 6, 2021	N/A  (No expiration)
D. Itogon Substation Project	DENR-EMB CAR	CNC-OL-CAR- 2019-02-00075	February 28, 2019	N/A  (No expiration)
E. Luzon Voltage Improvement Project 4 Stage 1 (Sorsogon SWS)	DENR-EMB Region 5	CNC-OL-R05- 2020-08-01032	August 17, 2020	N/A  (No expiration)
<b>Visayas</b>				
<b>1. ECC</b>				
A. Cebu-Bohol Interconnection Project (Maribojoc-Corella	DENR-EMB Region 7	ECC-OL-R07- 2021-0083	March 08, 2021	March 08, 2026

<b>Name of License / Permit</b>	<b>Issuing Regulatory Body</b>	<b>License / Permit No.</b>	<b>Issue Date</b>	<b>Expiry Date</b>
230 kV TL and Maribojoc CTS				
B. Cebu-Bohol 230 kV Interconnection Project (Dumanjug-Argao 230 kV TL and Argao CTS)	DENR-EMB Region 7	ECC-OL-R07-20210--60	February 18, 2021	February 18, 2026
C. Leyte-Cebu Interconnection Uprating Project	DENR-EMB Region 7	ECC-OL-R07-2020-0213	September 24, 2020	September 24, 2025
D. Mindanao-Visayas Interconnection Project (Submarine Cable and Cable Terminal Stations)	DENR-EMB Region 7	ECC-R07-1809-0011	September 24, 2018	N/A (No expiration)
E. MVIP (Umapad 230V Substation)	DENR-EMB Region 7	ECC-OL-R07-2021-0084	March 8 2021	March 8, 2026
F. Cebu-Umapad 230kV T/L	DENR-EMB Region 7	ECC-OL-R07-2021-0186	June 27, 2021	June 27, 2026
G. CNP 3, Phase 3 (OHTL Cebu Side)	DENR-EMB Region 7	ECC-OL-R07-2019-0192	July 5, 2019	N/A (No expiration)
H. CNP 3, Phase 3 (OHTL Negros S) ide)	DENR-EMB Region 6	ECC-OL-R06-2019-0492	September 4, 2019	N/A (No expiration)
I. CNP 3, Phase 1 (Negros-Cebu Interconnection)	DENR-EMB Region 7	ECC-R07-1901-0004	February 26, 2019	N/A (No expiration)
J. CNP 3, Phase 2 (Calatrava S/S)	DENR-EMB Region 6	ECC-OL-R06-2019-0502	September 13, 2019	N/A (No expiration)
K. CNP 3, Phase 2 (Cadiz S/S)	DENR-EMB Region 6	ECC-OL R06-2019-0571	October 9, 2019	N/A (No expiration)
L. CNP 3, Phase 2 (E.B Magalona S/S)	DENR-EMB Region 6	ECC-OL-R06-2020-0140	May 21, 2020	May 21, 2025
M. CNP 3, Phase 1 (Calatrava CTS)	DENR-EMB Region 6	ECC-OL-R06-2018-0255	July 4, 2018	N/A (No expiration)
N. CNO 3, Phase 1 (Talavera CTS)	DENR-EMB Region 6	ECC-OL-R07-2018-0131	September 6, 2018	N/A (No expiration)
O. Toledo-Magdugo 230 kV Transmission Line Project	DENR-EMB Region 7	ECC-R07-1507-0148 (amendment)	April 07, 2021	N/A (No expiration)

<b>Name of License / Permit</b>	<b>Issuing Regulatory Body</b>	<b>License / Permit No.</b>	<b>Issue Date</b>	<b>Expiry Date</b>
P. Nabas-Caticlan-Boracay Transmission Project	DENR-EMB Region 6	ECC-OL-R06-2019-0625	November 13, 2019	N/A (No expiration)
Q. Nabas-Caticlan-Boracay Transmission Project Stage 1(Submarine Cable)	DENR-EMB Region 6	ECC-OL-R06-2020-0136	May 17, 2020	May 17, 2025
R. Cebu-Negros-Panay 230 kV Backbone Project Stage 3, Phase 3 (Overhead T/L- Negros Side)	DENR-EMB Region 6	ECC-OL-R06-2019-0492	September 4, 2019	N/A (No expiration)
S. Cebu-Negros-Panay 230 kV Backbone Project Stage 3, Phase 3 (Overhead T/L- Cebu Side)	DENR-EMB Region 7	ECC-OL-R07-2019-0192	July 05, 2019	N/A (No expiration)
T. Negros Panay Interconnection Line 2 Project	DENR-EMB Region 6	ECC Ref. No. 0606-0508-186-120A (amendment)	August 17, 2022	August 17, 2027
U. Cebu-Lapulapu 230 kV Transmission Project	DENR-EMB Region 7	ECC-OL-R07-2020-0171	July 25, 2020	July 25, 2025
V. Leyte-Cebu Interconnection Uprating Project (Tabango SS)	DENR-EMB Region 8	ECC-OL-R07-2020-0213	September 24, 2020	N/A (No expiration)
<b>2. CNC</b>				
A. Sta. Barbara-San Jose 138 kV Transmission Line (2nd Circuit Stringing Stage 1)	DENR-EMB 6	CNC-OL-R06-2020-11-01814	November 11, 2020	N/A (No expiration)
B. Panay-Guimaras 138kV Interconnection Project (PGIP)-Buenavista SS	DENR-EMB Region 6	CNC-OL-R06-2021-08-01842	August 05, 2021	N/A (No expiration)
C. PGIP-Iloilo SS	DENR-EMB Region 6	CNC-OL-R06-2020-04-00657	April 8, 2020	N/A (No expiration)
D. PGIP-TL Portion (Iloilo Side)	DENR-EMB Region 6	CNC-OL-R06-2020-03-00442	March 18, 2020	N/A (No expiration)
E. PGIP-TL Portion (Guimaras Side)	DENR-EMB Region 6	CNC-OL-R06-2020-09-01479	September 6, 2020	N/A (No expiration)
F. MVIP 138 kV OHTL and Electrode Line (Naga-Samboan Realignment Project)	DENR-EMB Region 7	CNC-OL-R07-2019-07-01103	July 22, 2019	N/A (No expiration)

Name of License / Permit	Issuing Regulatory Body	License / Permit No.	Issue Date	Expiry Date
G. Amlan-Dumaguete 138kV Transmission Line Project (Dumaguete S/S)	DENR-EMB Region 7	CNC-OL-R07-2021-05-01375	May 27, 2021	N/A (No expiration)
H. San-Carlos-Calatrava 69KV T/L	DENR-EMB Region 6	CNC-OL-R06-2020-03-00339	March 11, 2020	N/A (No expiration)
I. San Carlos 60KV Switching Station	DENR-EMB Region 6	CNC-OL-R06-2020-01-00092	January 20, 2020	N/A (No expiration)
<b>Mindanao</b>				
<b>1. ECC</b>				
A. MVIP (Lala CS/SS - Dapitan CTS 350 kV OHTL Component)	DENR-EMB Region 9	ECC-OL-R09-2018-0061	July 9, 2018	N/A (No expiration)
B. MVIP (Kauswagan SS-Lala CS/SS 230 kV OHTL Component and Lala CS/SS Component)	DENR-EMB Region 10	ECC-OL-R10-2018-0145	July 11, 2018	N/A (No expiration)
<b>2. CNC</b>				
A. MVIP (138 kV and 20 kV Transmission Line and Electrode Station in Mindanao)	DENR-EMB Region 10	CNC-OL-R10-2018-07-00456	July 24, 2018	N/A (No expiration)
B. Mindanao Substation Upgrading Project (MSUP) Stages 1 and 2 (Agus 6 Substation)	DENR-EMB Region 10	CNC-OL-R10-2019-04-00219	April 10, 2019	N/A (No expiration)
C. Tacurong-Kalamansig 69kV T/L	DENR EMB Region 12	CNC-OL-R12-2019-09-00677	September 25, 2019	N/A (No expiration)
D. MSUP Stages 1 and 2 (Butuan Substation)	DENR-EMB Region 13	CNC-OL-R13-2019-04-00117	April 15, 2019	N/A (No expiration)
E. MSUP Stages 1 and 2 (General Santos Substation)	DENR-EMB Region 12	CNC-OL-R12-2019-06-00366	June 3, 2019	N/A (No expiration)
F. MSUP Stages 1 and 2 (Maramag Substation)	DENR-EMB Region 10	CNC-OL-R10-2019-04-00211	April 10, 2019	N/A (No expiration)

<b>Name of License / Permit</b>	<b>Issuing Regulatory Body</b>	<b>License / Permit No.</b>	<b>Issue Date</b>	<b>Expiry Date</b>
G. MSUP Stages 1 and 2 (Bislig Substation)	DENR-EMB Region 13	CNC-OL-R13-2019-04-00115	April 25, 2019	N/A (No expiration)
H. MSUP Stages 1 and 2 (Kidapawan Substation)	DENR-EMB Region 12	CNC-OL-R12-2019-06-00363	June 3, 2019	N/A (No expiration)
I. Mindanao Substation Reliability Project, Stage 1 & MSUP Stage 1 (Bunawan Substation)	DENR-EMB Region 11	CNC-OL-R13-2019-07-00478	July 29, 2019	N/A (No expiration)
J. Mindanao Substation/Rehabilitation Project, Stage-1 (Sched III)	DENR EMB Region 11	CNC-OL-R11-2019-07-00434	July 15, 2019	N/A (No expiration)
K. Mindanao S/S Reliability Project, Stage 1 & Mindanao S/S Upgrading Project, Stage 1	DENR EMB Region 11	CNC-OL-R11-2019-07-00390	July 1, 2019	N/A (No expiration)
L. Mindanao S/S/Rehabilitation Project, Stage 1 (Sched 1) & Mindanao Substation/Upgrading Project, Stage 1 (Sched III)	DENR EMB Region 11	CNC -OL-R11-2019-07-00394	July 1, 2019	N/A (No expiration)
M. Mindanao Substation Upgrading Project (MSUP) Stage 1 and 2 (Opol Substation)	DENR EMB Region 10	CNC-OL-R10-2019-04-00220	April 10, 2019	N/A (No expiration)
N. Mindanao S/S Upgrading Project (MSUP) Stages 1 and 2 (Naga Substation)	DENR EMB Region 9	CNC-OL-R09-2019-04-00104	April 8, 2019	N/A (No expiration)
O. MSUP Stage 1 and 2 (Pitogo Substation)	DENR EMB Region 9	CNC-OL-R09-2019-04-00127	April 26, 2019	N/A (No expiration)
P. MSUP Stages 1 and 2 (Tacurong Substation)	DENR-EMB Region 12	CNC-OL-R12-2019-06-00365	June 3, 2019	N/A (No expiration)
Q. MSUP Stages 1 and 2 (San Francisco Substation)	DENR-EMB Region 13	CNC-OL-R13-2019-04-00116	April 25, 2019	N/A (No expiration)
R. Kabacan 238kV S/S Project	DENR-EMB Region 12	CNC-OL-R12-2019-09-00557	September 10, 2019	N/A (No expiration)

**APPENDIX 3**

**FULL INDUSTRY REPORT PREPARED BY THE LANTAU GROUP**



Full Industry Report for  
NGCP IPO Prospectus

Document Information	
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## ACRONYMS

AAGR	Average Annual Growth Rate
ADB	Asian Development Bank
AGMO	Autonomous Group Market Operator
AS	Ancillary Services
ASAI	Ancillary Services Availability Indicator
ASEAN	Association of South Eastern Asian Nations
ASPA	Ancillary Services Procurement Agreement
ASPP	Ancillary Services Procurement Plan
BBB	Build Build Build
BESS	Battery Energy Storage Systems
CKT-KMS	Circuit Kilometres
CRB	Central Registration Body
CREZ	Competitive Renewable Energy Zones
DoE	Philippine Department of Energy
DU	Distribution Utility
EC	Electric Cooperatives
ECA	Electricity Conversion Agreements
EPIRA	Electric Power Industry Reform Act
ERC	Electricity Regulatory Commission
FIT	Feed-in-Tariff
FLC	Frequency Limit Compliance
FOT	Frequency of Tripping
GDP	Gross Domestic Product
GMC	Grid Management Committee
GRAM	Generation Rate Adjustment Mechanism
GW	Gigawatt
GWH	Giga-watt Hour
Hz	Hertz
HVDC	High-Voltage Direct Current

IEMOP	Independent Market Operator of the Wholesale Electricity Spot Market
IMF	International Monetary Fund
IMO	Independent Market Operator
IPP	Independent Power Producer
IPPA	Independent Power Producer Agreement
KV	Kilovolt
LNG	Liquefied Natural Gas
MVA	Megavolt Amperes
MVIP	Mindanao-Visayas Interconnection Project
MW	Mega-watt
MWH	Mega-watt hour
NEA	National Electrification Administration
NPC	National Power Corporation
NGCP	National Grid Corporation of the Philippines
OATS	Open Access Transmission System
PBR	Performance Based Regulation
PDP	Philippine Development Plan
PEMC	Philippine Electricity Market Corporation
PEP	Philippine Energy Plan
PHP	Philippine Pesos
PIOU	Private Investor Owned Utilities
PPA	Power Procurement Agreement
PSA	Power Supply Agreements
PSALM	Power Sector Assets & Liabilities Management Corporation
RA	Republic Act
RCOA	Retail Competition and Open Access
RE	Renewable Energy
REC	Renewable Energy Certificate
REM	Renewable Energy Market
RES	Renewable Energy Sources
RPS	Renewable Portfolio Shares
SA	System Availability

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SIIG	Small Island and Isolated Grid
SISI	System Interruption Severity Index
TDP	Transmission Development Plan
TFEC	Total Final Energy Consumption
TPES	Total Primary Energy Supply
TRANSMISYON	Transmission Resiliency Augmentation for Nationwide Smart Grid Management through Interconnected Systems, Organizations and Networks
TW	Terawatt
TWH	Terawatt Hour
VLC	Voltage Limit Compliance
WESM	Wholesale Electricity Spot Market

## 1. INTRODUCTION

### 1.1. POWER SECTOR OVERVIEW

The Philippines ranks as the 7<sup>th</sup> most populous country in Asia and the 2<sup>nd</sup> amongst the countries in the Association of Southeast Asian Nations (ASEAN).<sup>1</sup> With an estimated population of 108.7 million in 2020, it is projected to grow to 115.4 million by 2025, and 142.0 million by 2045.<sup>2</sup> Between 2020 and 2045, the Philippine population is projected to have an implied Compounded Annual Growth Rate (CAGR) of 1.12%.

In 2020, the Philippines consumed 101.8 terawatt hours (TWh) of electricity. A slight decrease from the 2019 system high of 106.0 TWh, system peak demand in 2020 stood at 15.28 gigawatts (GW).<sup>3</sup> This was met by 26.25 GW of installed capacity, rated at 23.41 GW of dependable capacity, where dependable capacity is defined as actual reliable capacity, in contrast with a plant's nameplate capacity.<sup>4</sup> In 2020, the Philippines electricity market provided USD24.6 billion of gross value added to the Philippines economy at 2020 prices.<sup>5</sup> Gross value added for electricity increased by 6.4% from 2018 to 2019, but fell to -1.3% over the period from 2019 to 2020 due to the Covid-induced economic recession.<sup>6</sup> As outlined in a recent (2021) consultation draft of the Transmission Development Plan (TDP), NGCP expects electricity demand to grow at an annual average growth rate (AAGR) of 6.23% between 2021 to 2025, 6.73% for 2026 to 2030, and 6.49% for 2031 to 2040.<sup>7</sup>

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<sup>1</sup> United Nations Population Division. (2019). *World Population Prospects: 2019 Revision*.

<sup>2</sup> Philippine Statistics Authority. (2021). *Updated Projected Mid-Year Population for the Philippines Based on the 2015 POPCEN Results:2020-2025*.

<sup>3</sup> Department of Energy. (2021). *2001-2020 System Peak Demand Per Grid*. <https://www.doe.gov.ph/energy-statistics/philippine-power-statistics?q=energy-statistics/philippine-power-statistics>

<sup>4</sup> Department of Energy. (2020). *Philippines Power Statistic: 2003-2020 Installed and Dependable Capacity per Grid, by Plant Type*. [Philippine Power Statistic | Department of Energy Philippines \(doe.gov.ph\)](http://philippine-power-statistic.department-of-energy-philippines.gov.ph)

<sup>5</sup> Philippines Statistics Authority. (2021). *Gross Value Added in Electricity, Steam, Water, and Waste Management, Q1 2000 to Q4 2020 at Current and Constant Prices as of April 8, 2021*. <https://psa.gov.ph/national-accounts/base-2018/data-series>

<sup>6</sup> Philippines Statistics Authority. (2021). *Revised Annual 2019 to 2020 National Accounts of the Philippines*.

<sup>7</sup> National Grid Corporation of the Philippines. (2021). *Transmission Development Plan 2021-2040 Consultation Draft*.

According to the Philippine Statistics Authority's estimations of population based on the 2015 census, the most recent available pending the release of the 2020 update, just over 57% of the population reside in the main economic region of Luzon.<sup>8</sup> About 19% live in the Visayas region, with nearly 24% living in Mindanao.<sup>9</sup> These three regions are the only parts of the Philippines featuring a transmission grid. A transmission interconnection links Luzon and Visayas. An interconnection between Visayas and Mindanao is under construction with completion expected in 2022. Collectively, around 2% of the population living in these three regions are areas do not have access to grid electricity.

The remaining Philippine population is scattered across thousands of other smaller, relatively isolated islands that are not grid-connected. Instead, they are served by diesel generators or solar systems – if at all.<sup>10</sup> Many of these remote areas are impoverished and the Department of Energy (DoE) aims to increase electrification and lower power costs with decentralised mini-grids and solar home systems.<sup>11</sup>

Energy consumption and economic development in the Philippines are highly interdependent. The country's economy had a real Gross Domestic Product (GDP) of USD362 billion in 2020.<sup>12</sup> The three grid connected areas accounted for almost 100% of 2020 GDP with 69.2% of real GDP was in Luzon, 17.2% in Mindanao, and 13.6% in Visayas.<sup>13</sup> Comparatively, the Philippines' real GDP is the fourth largest in ASEAN. On a per capita basis, 2020 GDP in the Philippines is USD 2,980 which ranks as the sixth highest out of the ASEAN nations.<sup>14</sup>

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8 Including Mimaropa and Mindoro

9 Philippine Statistics Authority. (2021). *Updated Projected Mid-Year Population for the Philippines Based on the 2015 POPCEN Results:2020-2025*.

10 Department of Energy. (2018). *DoE to Energize Off-Grid Areas*. <https://www.doe.gov.ph/press-releases/doe-energize-grid-areas?ckattempt=1>

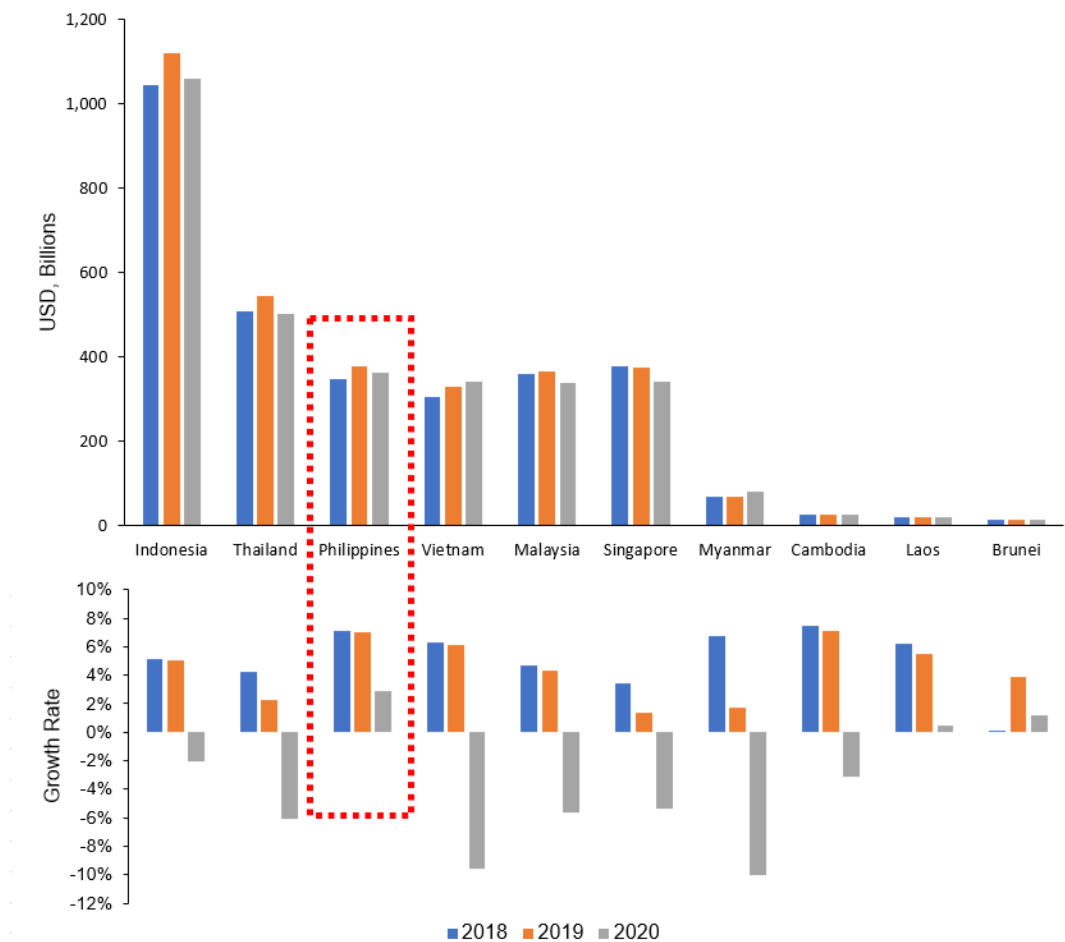
11 Department of Energy. (2018). *DoE to Energize Off-Grid Areas*. <https://www.doe.gov.ph/press-releases/doe-energize-grid-areas?ckattempt=1>

12 International Monetary Foundation. (2021). *Country Data: Philippines*. [Philippines and the IMF](#)

13 Philippine Statistics Authority. (2021). *2000-2020 Gross Regional Domestic Product (at Constant 2018 Prices)*.

14 Bloomberg Finance L.P. World Bank Group. (2021). *1970-2020 World Bank GDP Per Capita at Constant 2005 USD Prices: SG, BRN, MA, TH, ID, PH, VN, LO, and KH*.

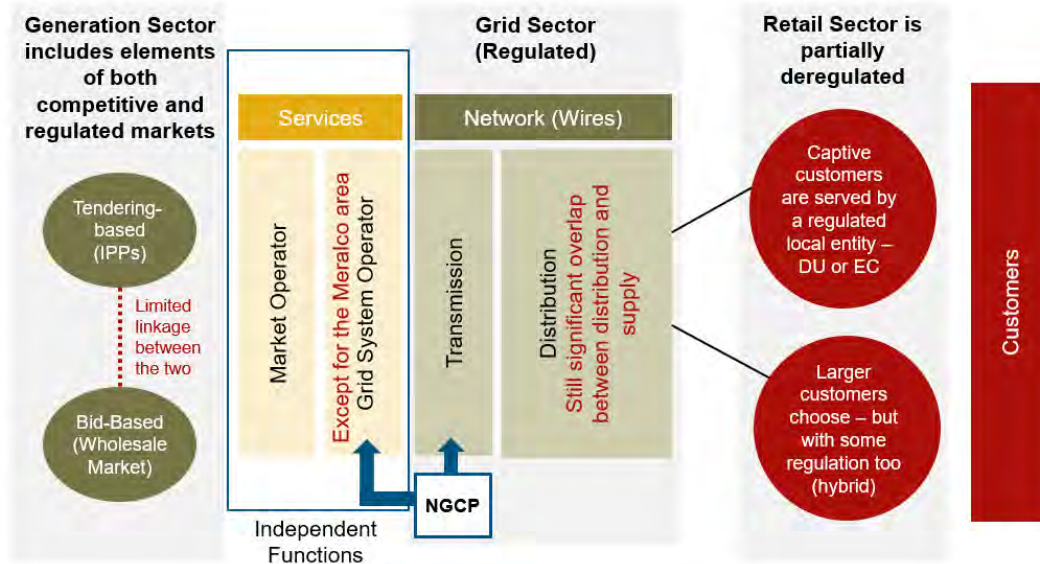
**Figure 1: Real GDP and Growth Rates, 2018 to 2020**



Source: International Monetary Foundation. (2021). *World Economic Outlook Database, April 2021*.

In terms of market structure, the Philippine power sector has seen substantial restructured following the promulgation of the Electric Power Industry Reform Act (EPIRA) in 2001. A competitive wholesale electricity spot market (WESM) has been operating since 2006. Retail competition and open access (RCOA) started in 2013 for the largest customers and was extended in February 2021 to customers larger than 500 kW. Other electricity industry functions, primarily transmission, distribution, are regulated. Figure 2 provides a high-level summary.

**Figure 2: Regulation Across the Electricity Sector**











Source: The Lantau Group. (2021).

Note: NGCP operates the transmission grid nationally, apart from within the greater Metro Manila area, where the transmission grid is operated by Meralco.

Transmission operations are managed by National Grid Corporation of the Philippines (NGCP). The distribution and supply side of the market features a mix of private investor-owned Distribution utilities (DUs) and Electric Cooperatives (ECs) that operate within geographic franchise areas. DUs and ECs act as retailers for all customers who are not contestable under RCOA as well as any contestable customer who does not elect to switch to competitive retail supply. The DUs and ECs fulfil their supply requirements via power purchases from long-term bilateral contracts – known as Power Supply Agreements (PSAs) – as well as purchases from the spot market. The associated energy costs are passed through to consumers directly via regulated tariffs. PSAs account for the majority of energy sales in the market and are subject to regulatory approval. DUs earn a regulated return on their grid assets, while ECs are member-owned entities that operate on a not-for-profit basis.

**Figure 3: Business Operations Comparison of Several Key Markets**

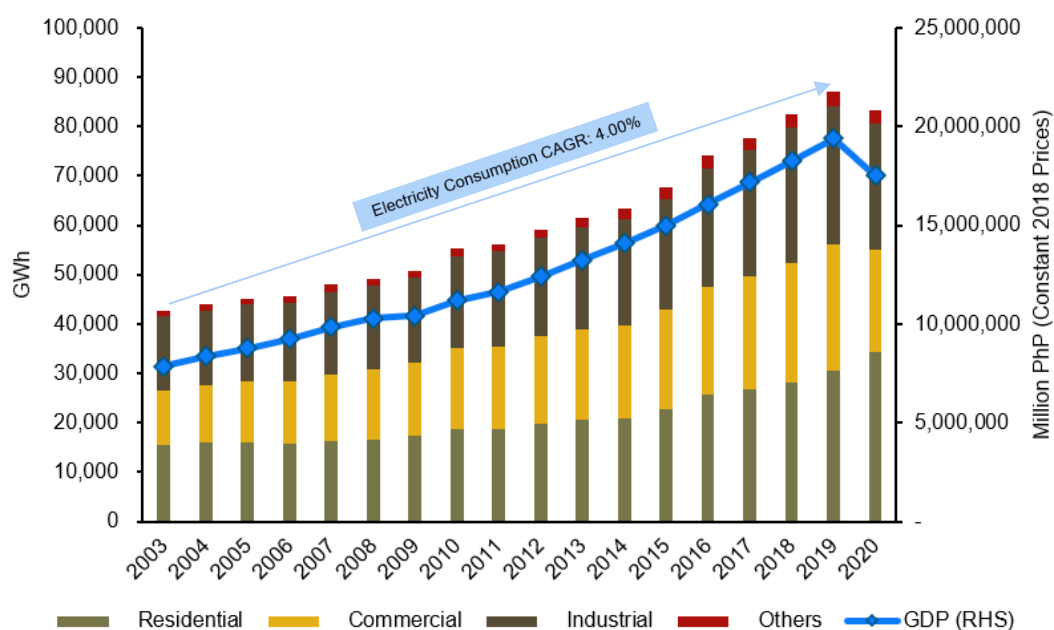
	Philippines	Malaysia	Thailand	Indonesia	Vietnam	Australia	United Kingdom	
<b>Description</b>								
Key Player								
Ownership	Private	Private	Private	State-owned	State-owned	State-owned	Private	Private
Listed	✗	✓	✓	✗	✗	✗	✗	✓
<b>Business Model</b>								
Generation	✗	✓	✓	✓	✓	✓	✗	✗
Distribution	✗	✓	✓	✗	✓	✓	✗	✗
Transmission	✓	✗	✓	✓	✓	✓	✓	✓
System operator	✓	✗	✓	✓	✓	✓	✗	✓

### 1.1.1. Demand and Supply Fundamentals

Historically, Philippine economic growth and electricity consumption growth have been correlated.

From 2000 through to 2020, the CAGR of total electricity consumption was 3.6%, while the economy grew at an CAGR of 5.0%.<sup>15</sup> For the whole of the Philippines, the elasticity of electricity consumption with respect to real GDP was 0.94 over the period 2016 to 2020, meaning that a 1% increase in GDP has corresponded to a 0.94% increase in electricity consumption. Growth in electricity consumption has been well-balanced across the commercial, industrial, and residential sectors, as shown in Figure 4.

**Figure 4: National Growth in Real GDP and Electricity Consumption**



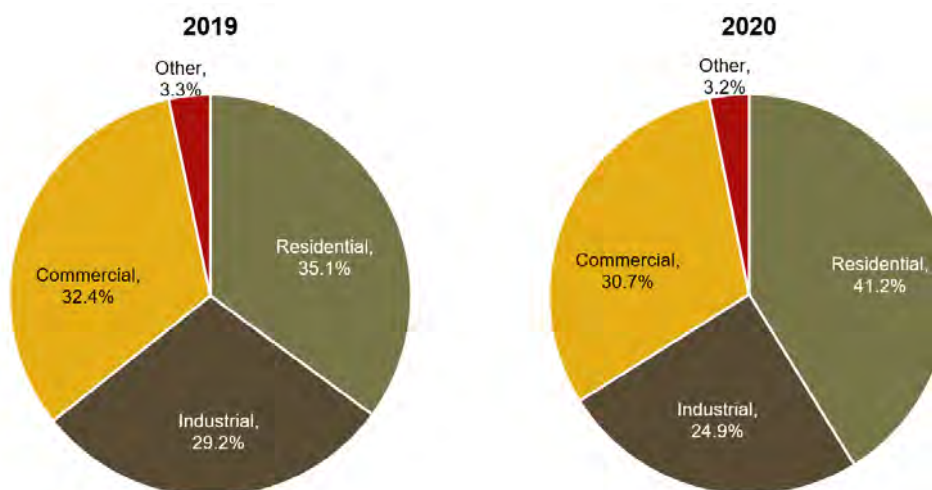
Source: Department of Energy. (2021). 2003-2020 Electricity Sales and Consumption per Grid, by Sector; and Philippine Statistics Authority. (2021). Annual National Accounts Linked Series (2000-2020) at Current and Constant 2018 Prices.

15

World Bank. (2021). *Electric Power Consumption (kWh per capita)*; Philippines Statistics Authority. (2021). *Annual national Accounts Linked Series (2000-2020)*. <https://psa.gov.ph/national-accounts/base-2018/data-series>

In 2020, electricity sales comprised 41.2% residential consumption, 30.7% industrial, 24.9% commercial and 3.2% from other sectors (Figure 5).<sup>16</sup> This is comparable to other ASEAN countries, though it is noteworthy that the Philippines has a more balanced mix of energy drivers with less reliance on energy intensive heavy industry.<sup>17</sup> This dynamic reflects the significant role the services sector plays in driving economic growth

**Figure 5: Sectoral Breakdown of Philippine National Electricity Sales (2019 and 2020)**



Source: Department of Energy. (2021). Philippine Power Statistic: 2003-2020 Electricity Sales and Consumption per Grid, by Sector.

In 2019, Philippine annual electricity usage per capita stood at 981 kilowatt hours (kWh) with nationwide total electricity consumption of 87.1 TWh.<sup>18</sup> As can be seen in Figure 6, this is relatively low in comparison with other major ASEAN countries and the Organization for Economic Co-operation and Development (OECD) member average. Pre-Covid growth projections made by the Philippine DOE for 2025 forecast total annual consumption to reach 140.7 TWh, translating to annual electricity usage per capita of 1,220 kWh.<sup>19</sup>

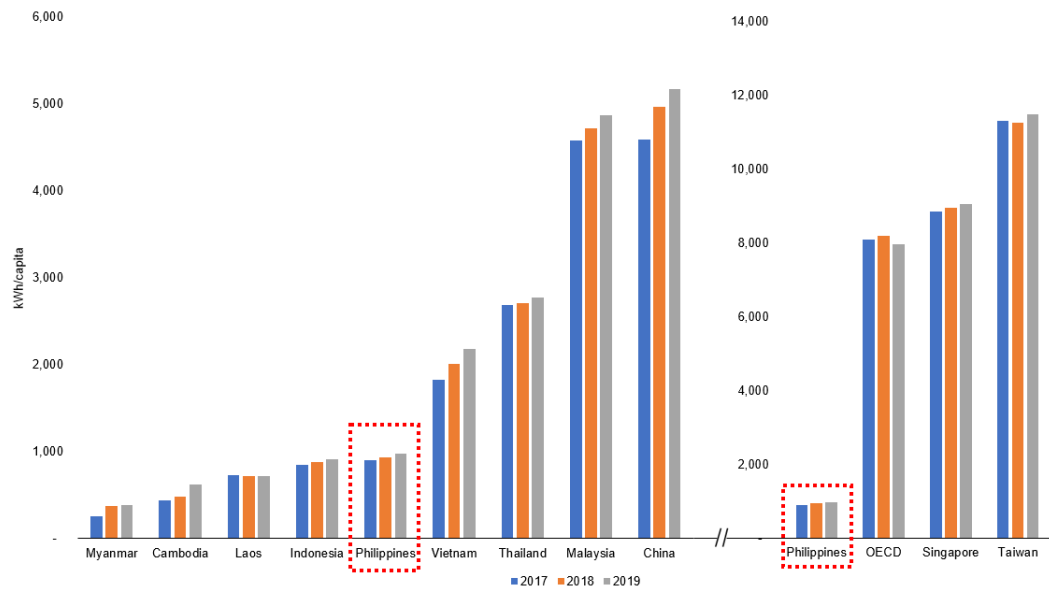
<sup>16</sup> Department of Energy. (2021). *2020 Power Statistics*.  
[https://www.doe.gov.ph/sites/default/files/pdf/energy\\_statistics/DoE%202020%20Power%20Statistics\\_as%20of%2028%20April%202021\\_a.%202003-2020%20Summary%20%28protected%29%20rev.xlsx](https://www.doe.gov.ph/sites/default/files/pdf/energy_statistics/DoE%202020%20Power%20Statistics_as%20of%2028%20April%202021_a.%202003-2020%20Summary%20%28protected%29%20rev.xlsx)

<sup>17</sup> Asian Development Bank. (2018). *Philippines: Energy Sector Overview, Strategy, and Road Map*.

<sup>18</sup> Department of Energy. (2020). *2019 Energy Situationer*.

<sup>19</sup> These projections are made based on Philippine Energy Plan (PEP) forecasts that were made in 2018 prior to the onset of Covid-19. The electricity consumption 2025 calculation was made based on the PEP forecast for Philippine peak demand in 2025 at 201.1 TWh and the business-as-usual PEP assumption of a 70% load factor throughout 2018-2040. The consumption per capita consumption was based on the aforementioned calculation and 2015 census projections for 2025 that expect the population to achieve approximately 115 million.

**Figure 6: Electricity Consumption per Capita across Select Asian Countries and OECD**



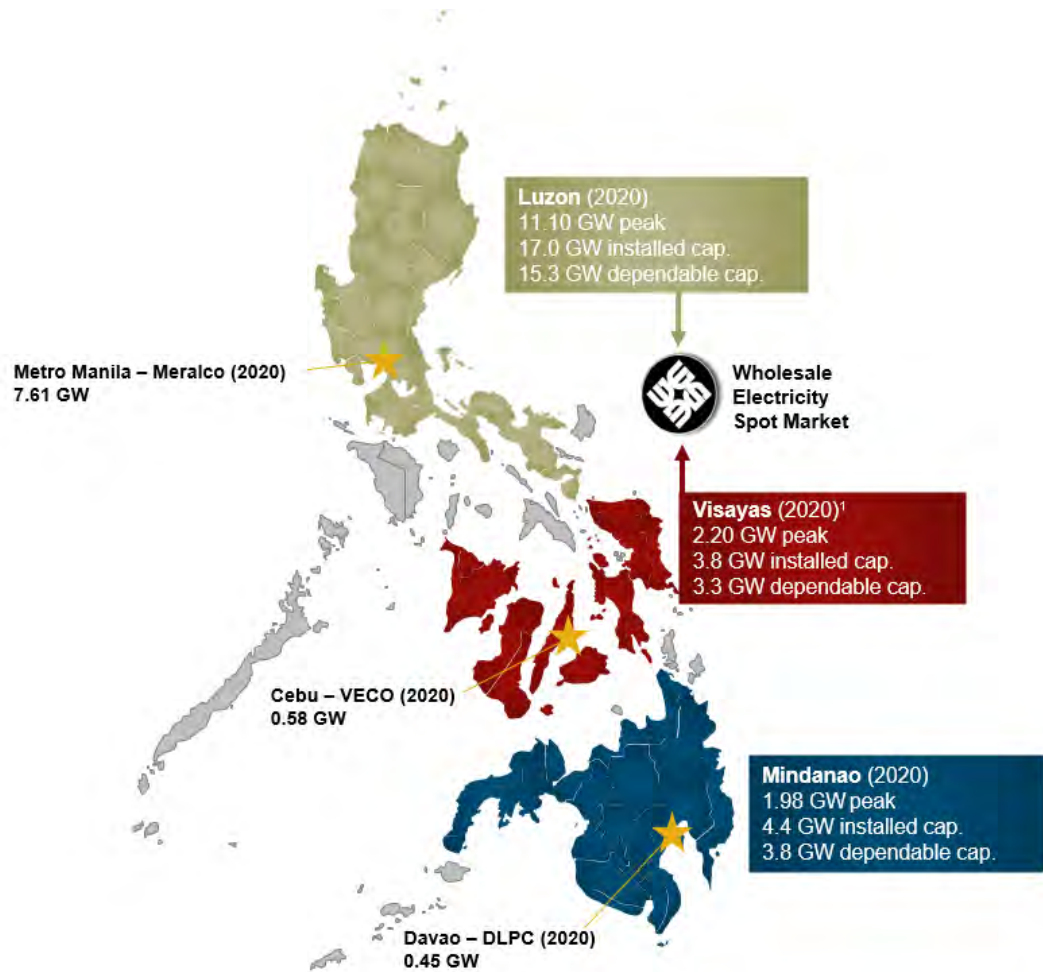
Source: International Energy Agency. (2020). Electricity Consumption per Capita, OECD Total 1990-2019, as modified by The Lantau Group; Department of Energy. (2020); World Bank. (2021). Electric Power Consumption (kWh per capita); Philippines Statistics Authority. (2021). Annual National Accounts Linked Series (2000-2020); and The Lantau Group. (2021).

Within the Philippines, the majority of electricity demand is centred in the main economic region of Luzon, which accounted for 73% of electricity consumed nationally in 2020, and with much of this concentrated in the Metro Manila region.<sup>20</sup> Figure 7 conveys recent demand and supply figures across the three grid connected regions of Luzon, Visayas and Mindanao. As can be seen, both installed and what is called ‘dependable’ generation capacity by the DOE exceeds peak demand. Whilst there is a reserve margin, there is still a continuing need for investment and development to keep pace with growth, cater for outages, and be prepared for inherent demand uncertainty due to weather variations such as periodic El Nino impacts.

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Department of Energy. (2021). *Energy Consumption: Total Final Energy Consumption by Sector*. <https://www.doe.gov.ph/energy-consumption>

**Figure 7: Electricity Demand from Regional Grids as of 2020**

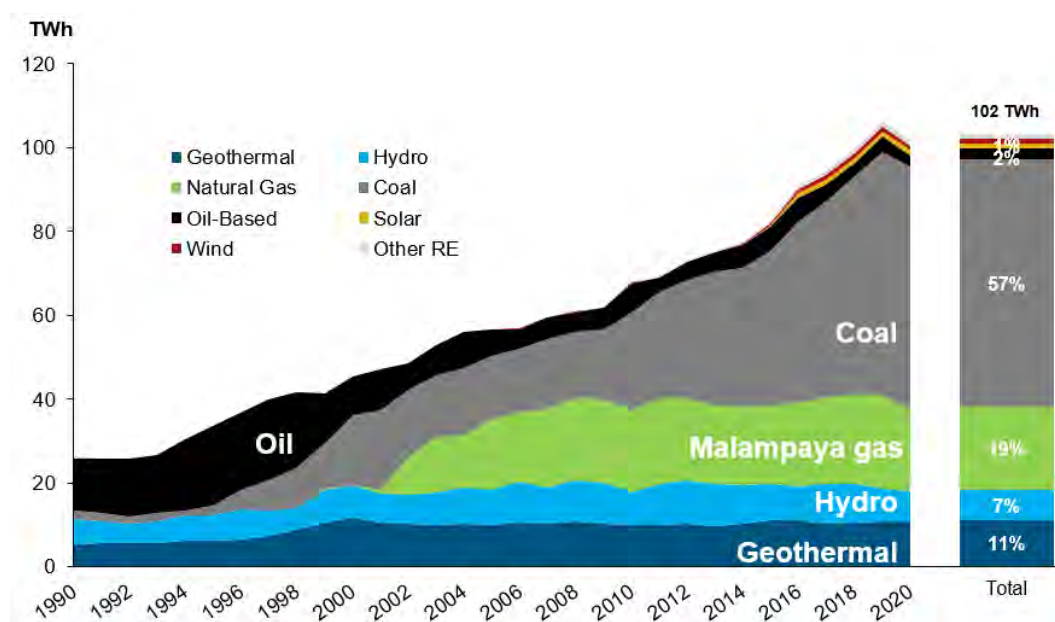


Source: Department of Energy. (2021). 2001-2020 System Peak Demand Per Grid.

Fuel sources for the Philippine power sector include reliance on indigenous natural resources, with domestic coal, natural gas, geothermal, and hydro resources all featuring prominently and driving distinct generation dynamics across each region. In addition, coal is imported, and the possibility of LNG imports has long been in prospect to help meet growth as well as offset depletion of domestic gas resources. Currently, fossil fuel generators constitute the bulk of electricity supply. In 2020, 57% of electricity generation in the Philippines was coal-fired, while natural gas and oil accounted for a further 19% and 2% of generation supply respectively.<sup>21</sup> The remaining 21% of supply is renewable, predominantly geothermal and hydro, which made up 11% and 7% of total electricity supply respectively in 2020.<sup>22</sup>

Figure 8 highlights the evolving generation mix from 1990 through to 2020. Notable developments are the diminishing role of oil-fired generation in the 1990s and early 2000s, the development of the Philippine’s Malampaya gas field in the early 2000s, and the substantial increase in coal-fired generation in the 2010s. As can be seen, increased electricity demand in the twenty-first century has largely been met by expanded thermal generation, although wind and solar have grown recently.

**Figure 8: Generation of Electricity by Fuel Type (1990-2020)**



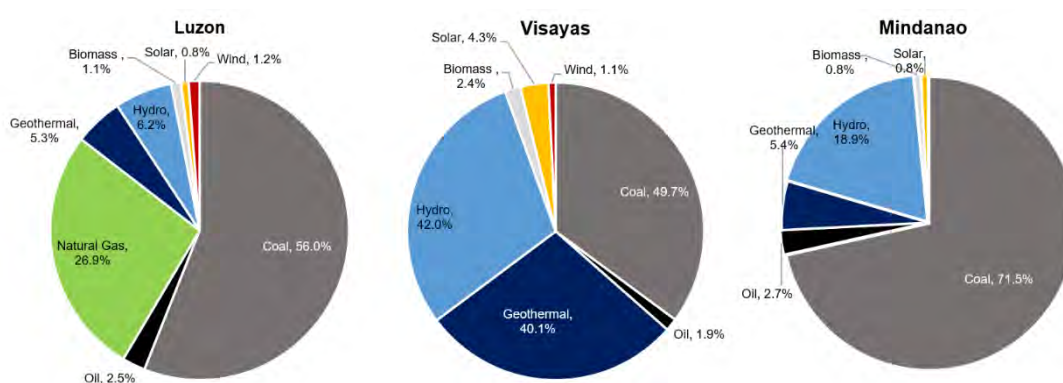
Source: Department of Energy. (2020). Philippine Power Statistic: 2003-2020 Gross Power Generation per Grid, by Plant Type.

21 Philippine Power Statistics. (2021). 2003-2020 Gross Power Generation per Grid, by Plant Type. <https://www.doe.gov.ph/energy-statistics/philippine-power-statistics?ckattempt=1>

22 Philippine Power Statistics. (2021). 2003-2020 Gross Power Generation per Grid, by Plant Type. <https://www.doe.gov.ph/energy-statistics/philippine-power-statistics?ckattempt=1>

Coal forms the backbone of supply in each of the three major grid-connected regions, at 56% in Luzon, 50% in Visayas, and 72% in Mindanao. However, apart from coal, each region has a distinct fuel mix due to different availability profiles of indigenous natural resources.<sup>23</sup> The Malampaya gas field, the Philippine's only source of domestic gas, is located offshore and connected via an undersea pipeline to an onshore processing plant in Luzon. Consequently, gas makes up around 27% of Luzon's generation supply. Luzon is the only region to use Malampaya gas in electricity generation. Generation in Visayas consists of 40% geothermal energy, with geothermal resources concentrated in Leyte and Negros.<sup>24</sup> In Mindanao, 19% of electricity supply is hydropower.

**Figure 9: Regional Generation Mix**



Source: Department of Energy. (2021). Philippine Power Statistic: 2003-2020 Gross Power Generation per Grid, by Plant Type.

<sup>23</sup> Department of Energy. (2020). *National Renewable Energy Program*. <https://www.doe.gov.ph/national-renewable-energy-program>

<sup>24</sup> Asian Development Bank. (2018). *Philippines: Energy Sector Assessment, Strategy, and Road Map*. [Philippines: Energy Sector Assessment, Strategy, and Road Map \(adb.org\)](https://www.adb.org/publications/philippines-energy-sector-assessment-strategy-and-road-map)

Alongside coal, natural gas plays a significant role in electricity supply, with the Malampaya field is the country's sole source of indigenous gas in commercial quantities, yet its production is widely expected to see a decline in the coming years.<sup>25</sup> To meet energy supply projections outlined in the Philippine Energy Plan 2017-2040 (discussed further in Section 1.1.3) either new domestic gas fields will need to be developed, or liquefied natural gas (LNG) imported.<sup>26</sup> In 2017, the DoE issued the Philippine Downstream Natural Gas Regulation (PDNGR) to expedite LNG imports into the country.<sup>27</sup>

In recent years the Philippine government also has sought to promote the development and commercialisation of renewable energy through a variety of policy measures. Among these, the Feed-in-Tariff (FIT) and Renewable Portfolio Standards (RPS) have been two particularly important measures.<sup>28</sup> Both the FIT and RPS were first set out under with the Renewable Energy Act of 2008 and continue to exist in the Philippine power sector.<sup>29</sup>

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<sup>25</sup> International Trade Administration. (2021). *Philippines Energy Market*. <https://www.trade.gov/market-intelligence/philippines-energy-market>

<sup>26</sup> Department of Energy. (2018). *Philippine Energy Plan 2018-2040*. <https://www.doe.gov.ph/pep?ckattempt=1>

<sup>27</sup> Department of Energy. (2018). *Rules and Regulations Governing the Philippine Downstream Natural Gas Industry*. DC2017-11-0012. [Department Circular No. DC2017-11-0012 | Department of Energy Philippines \(doe.gov.ph\)](https://www.doe.gov.ph/sites/default/files/pdf/consumer_connect/2017_renewable_portfolio_standards_flyer.pdf)

<sup>28</sup> Department of Energy. (2017). *Renewable Portfolio Standards Flyer*. [https://www.doe.gov.ph/sites/default/files/pdf/consumer\\_connect/2017\\_renewable\\_portfolio\\_standards\\_flyer.pdf](https://www.doe.gov.ph/sites/default/files/pdf/consumer_connect/2017_renewable_portfolio_standards_flyer.pdf)

<sup>29</sup> Congress of the Philippines. (2008). *Renewable Energy Act of 2008 (RA 9513)*. <https://www.doe.gov.ph/renewable-energy?q=renewable-energy/republic-act-no-9513>

FITs for solar, wind, biomass, and small-scale hydro were first implemented in 2012 with payments first made in 2015. The RPS came into effect in 2018. The FIT program provides a fixed price per kWh for renewable energy production wherein differentiated tariffs were set for each generation technology and vintage, subject to a predetermined quota. As of December 2020, all renewable capacity FIT quotas have been fully subscribed, apart from 103 MWs of quota for small-hydro capacity remaining. Resources that were installed under the FIT scheme will continue to receive FIT payments for 20 years from the initial project completion date. As of 2020, the FIT program had led to 1,323 MW of installed renewable capacity.<sup>30</sup> The FIT program is funded by a combination of WESM revenues and a universal charge known as the 'FIT-All', which is approved annually by the ERC and paid by grid-connected end-users via their monthly bill. In the period 2015 through to 2020, installed solar capacity has increased from 165 MW to 1,019 MW. Installed wind capacity has stayed at more or less the same level however, with a slight increase from 427 MW to 443 MW over the same period.<sup>31</sup>

RPS places requirements on suppliers, retailers, and others, to procure a minimum amount of renewable energy from qualified sources each year from 2020 through until 2030. Under the RPS, all grid-connected distribution utilities are required to increase the share of renewable generation in their supply portfolio by 1% of total supply per year.<sup>32</sup>

Other policies have been put in place that indirectly drive renewable adoption. The 2018 Philippine Tax Reform for Acceleration and Inclusion (TRAIN) repealed tax benefits and imposed carbon excise taxes on oil and gas imports.<sup>33</sup> In 2020, the Energy Secretary simultaneously announced a moratorium on new coal-fired projects, while also permitting 100% foreign ownership of Philippine geothermal projects.<sup>34, 35</sup>

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<sup>30</sup> Department of Energy. (2020). *FIT Monitoring Board Summary as of 31 December 2020*.

[https://www.doe.gov.ph/sites/default/files/pdf/renewable\\_energy/fit-monitoring-board-summary-2020-12-31.pdf](https://www.doe.gov.ph/sites/default/files/pdf/renewable_energy/fit-monitoring-board-summary-2020-12-31.pdf)

<sup>31</sup> Department of Energy. (2020). *2003-2020 Installed and Dependable Capacity per Grid, by Plant Type*.

<https://www.doe.gov.ph/energy-statistics/philippine-power-statistics?ckattempt=1>

<sup>32</sup> Philippine Electricity Market Corporation. (2021). *Market Development: Renewable Portfolio Shares*.

<https://www.wesm.ph/market-development/re-market/renewable-portfolio-standards>

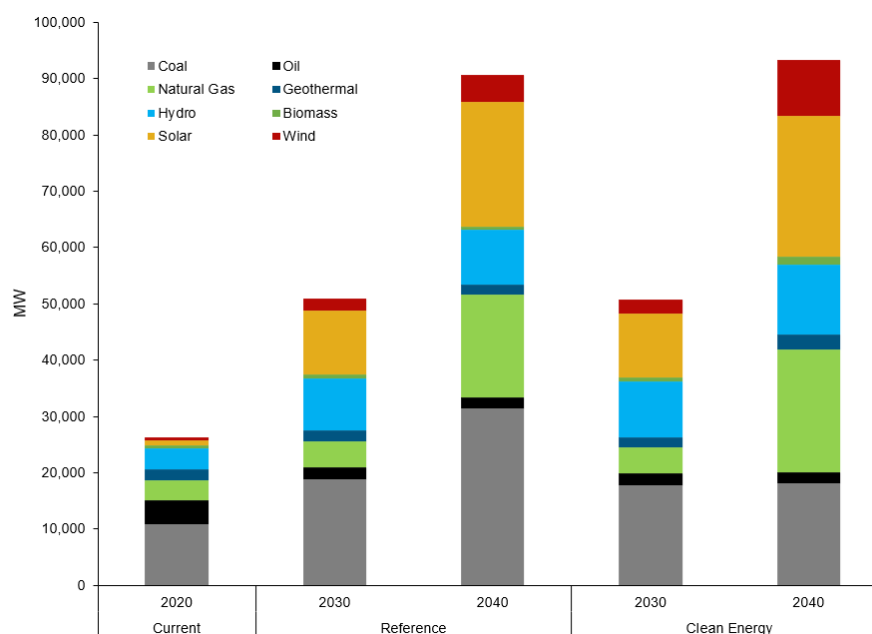
<sup>33</sup> Department of Finance. (2017). *The Tax Reform for Acceleration and Inclusion (TRAIN) Act*. [THE TAX REFORM FOR ACCELERATION AND INCLUSION \(TRAIN\) ACT. - Department of Finance \(dof.gov.ph\)](#)

<sup>34</sup> Department of Energy. (2020). *DoE Sec. Cusi Declares Moratorium on Endorsement for Greenfield Coal Power Plants*. [DoE SEC. CUSI DECLARES MORATORIUM ON ENDORSEMENTS FOR GREENFIELD COAL POWER PLANTS | Department of Energy Philippines](#)

<sup>35</sup> Philippine Information Agency. (2020). *PH now allows 100% foreign ownership in large-scale geothermal projects – DoE*. [Philippine Information Agency - PH now allows 100% foreign ownership in large-scale geothermal projects--DoE \(electricenergyonline.com\)](#)

The Department of Energy provides both business-as-usual reference outlook and a clean energy scenario for installed generation capacity projections in the Philippine Energy Plan 2018-2040.<sup>36</sup> These scenarios are set out in Figure 10.

**Figure 10: Projected Installed Capacity in Reference and Clean Energy Scenarios**



Source: Department of Energy. (2020). Philippine Power Statistic: 2003-2020 Installed and Dependable Capacity per Grid, by Plant Type; and Department of Energy. (2018). Philippine Energy Plan 2018-2040.

Published in 2018, the Philippine Energy Plan is the most recent official source of projected future generation capacity and mix, although much has changed since it was formulated. In particular, the Philippine Energy Plan had envisaged significant expansion of coal capacity, with coal generation capacity originally expected by the DoE to increase from 10,944 MW at the end of 2020 to approximately 18,900 MW in the reference scenario, and 17,850 MW in the clean energy scenario by 2030. Under the reference scenario, coal capacity will increase by another 66.5% to 31,470 MW in 2040, while staying at approximately the 2030 level in the clean energy scenario. The DoE's declaration of a coal moratorium suggests that the coal projections set out in the Philippine Energy Plan are unlikely to fully materialise. The declared moratorium is not absolute, but focuses on greenfield sites and excludes currently committed projects, pre-planned expansions of existing facilities and prospective projects that already have made significant progress in terms of securing local planning permissions.<sup>37</sup>

<sup>36</sup> Department of Energy. (2018). *Philippine Energy Plan 2018-2040*. <https://www.doe.gov.ph/pep?ckattempt=1>

<sup>37</sup> Department of Energy. (2020). *Advisory on the moratorium of endorsements for greenfield coal-fired power projects in line with improving the sustainability of the Philippines' electric power industry*.

In terms of other resources, the Philippine Energy Plan projects:

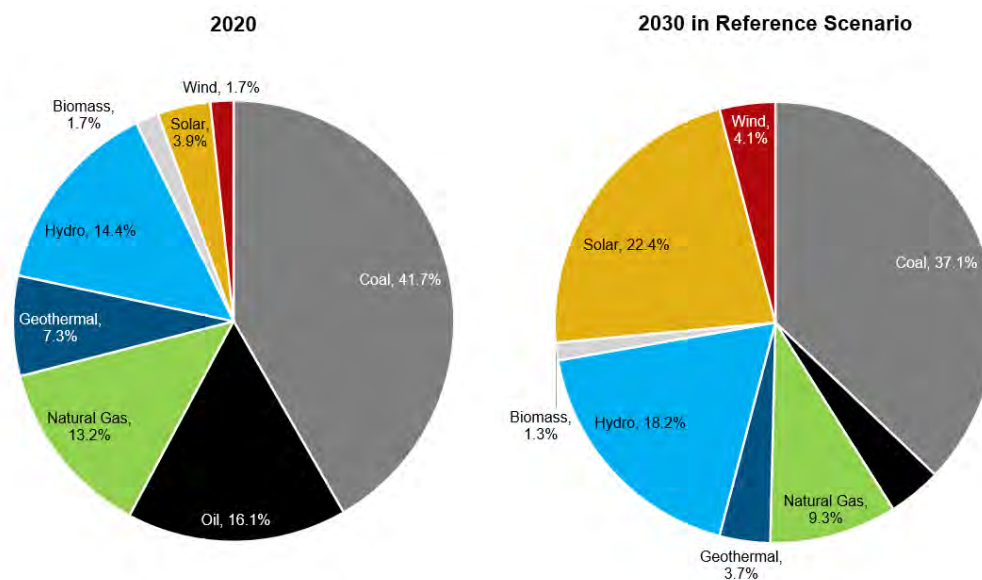
- Hydro:** The DoE forecasts hydrogeneration installed capacity to increase from 3,779 MW in 2020 to 9,247 MW in the reference scenario and 9,920 MW in the clean energy scenario in 2030. Between 2030 and 2040, hydro is expected to grow by 4.1% and 24.0% respectively in the reference and clean energy scenarios. Of the DoE's estimated 13,097 MW of untapped hydropower potential in the Philippines, 85% are large hydro (>10MW), while 15% are mini hydro (101kW-10MW) and micro hydro (1 to 100 kW). Although there are several large hydro plants with committed and indicative commercial operation dates (CODs), the DOE acknowledges that new large hydro projects are increasingly difficult to build, with high capital costs, long build times, negative environmental impacts and increasing issues around social licence and public acceptability. While the available capacity from potential run-of-river hydro projects is much smaller and avoids some of the challenges of large storage hydro, generation from nearly all hydro projects is highly seasonal and prone to reduced availability during the hotter dry season months of April, May, and June.<sup>38</sup>
- Natural gas:** In 2020, there was 3,453 MW of installed natural gas capacity in the Philippines. In its reference scenario, the DoE forecasts natural gas fired generation capacity to increase to 4,760 MW in 2030 and 18,240 MW in 2040. The clean energy scenario has a similar trajectory until 2030, with 4,620 MW predicted in 2030, and 21,660 MW in 2040. With the likely depletion of the Malampaya gas fields by 2030, the DoE has shifted its natural gas roadmap to focus on developing LNG import infrastructure rather than indigenous resources.
- Solar:** From its 2020 installed capacity of 1,019 MW, solar is expected by the DoE to reach 11,393 MW in 2030 for both the reference and clean energy scenario. Between 2030 and 2040, however, the reference scenario forecasts an additional 10,657 MW, while the clean energy scenario sees an additional 13,567 MW. Solar is expected to achieve approximately 24.3% to 26.7% of the total generation mix in 2040. The DoE believes that a significant portion of this growth will come from its 25 candidate renewable energy zones (CREZs). CREZs are selected based on their high concentration of high-quality wind and solar potential. By DoE estimations, these CREZs have a gross 58,110 MW of solar photovoltaic potential capacity.<sup>39</sup>
- Wind:** In 2020, installed wind capacity stood at 443 MW. In the reference scenario, installed wind capacity is expected to reach 2,076 MW in 2030 and double to 4,772 MW in 2040. But in the clean energy scenario, wind capacity is expected to reach a similar 2,396 MW in 2030 and quadruple to 8,897 MW in 2040. The DoE estimates that their 25 CREZs have a gross 93,987 MW of wind potential capacity.<sup>40</sup>

<sup>38</sup> Department of Energy. (2021). *Hydropower*. <https://www.doe.gov.ph/hydropower>

<sup>39</sup> Department of Energy. (2018). *Philippine Energy Plan 2018-2040*. [https://www.doe.gov.ph/sites/default/files/pdf/pep/pep-2018-2040\\_20210323.pdf](https://www.doe.gov.ph/sites/default/files/pdf/pep/pep-2018-2040_20210323.pdf)

<sup>40</sup> Department of Energy. (2018). *Philippine Energy Plan 2018-2040*. [https://www.doe.gov.ph/sites/default/files/pdf/pep/pep-2018-2040\\_20210323.pdf](https://www.doe.gov.ph/sites/default/files/pdf/pep/pep-2018-2040_20210323.pdf)

**Figure 11: Current and Official Government Reference Forecast (2030) for Installed Capacity by Fuel Type**



Source: Department of Energy. (2018). *Philippine Energy Plan 2018-2040*.

### 1.1.2. Macroeconomic Environment

The Philippines had a real GDP of USD362 billion in 2020, which, due to the Covid-induced economic recession, reflects a contraction of -9.6% from 2019.<sup>41</sup> By comparison, the World Bank estimated that real GDP in ASEAN grew by 0.9% in 2020 (the lowest rate since 1967).<sup>42</sup> The World Bank postulates that the relatively large negative impact on GDP observed in the Philippines was due to a combination of strict lockdowns muting domestic demand, along with a disproportionate reliance on outsourcing, international supply chains, and the service sector.<sup>43</sup>

<sup>41</sup> International Monetary Foundation. (2021). *Country Data: Philippines*. [Philippines and the IMF](#)

<sup>42</sup> World Bank. (2020). *From Containment to Recovery: Economic Update for East Asia and the Pacific, October 2020*. <https://www.worldbank.org/en/region/eap/publication/east-asia-pacific-economic-update>

<sup>43</sup> The World Bank. (2021). *Philippines Economic Update June 2021 Edition: Navigating a Challenging Recovery*. <https://documents1.worldbank.org/curated/en/380011623076770757/pdf/Philippines-Economic-Update-Navigating-a-Challenging-Recovery.pdf>

The Philippine services sector, which represented 60.7% of overall Philippine GDP in 2020,<sup>44</sup> contracted by -9.2% contraction in 2020, led by reductions in accommodation and food service growth (-45.4%), transport and storage (-30.9%), real estate (-17.0%), and wholesale and retail trade (-9.2%).<sup>45</sup> Philippine industrial sectors represented 29.2% of GDP, with manufacturing being the largest industrial sector and contributing to 18.6% of GDP.<sup>46</sup> Industry as a whole contracted by -13.2% in 2020.<sup>47</sup> Industry was weighed down by contractions in mining and quarrying (-18.9%), manufacturing (-9.8%) and construction (-25.7%). Agriculture, forestry, and fishing represented 10.2% of GDP in 2020 and contracted by -0.2% in 2020.<sup>48</sup>

The Asian Development Bank (ADB) citing the continuation of muted consumer activity, business activity, and consumer confidence due to the ongoing pandemic as the basis for downward revisions to GDP in 2021.<sup>49</sup> Looking at growth in 2022 and beyond, the median 2022 real GDP forecast (made by an assortment of banks and rating agencies on Bloomberg in July 2021) is 6.6%.<sup>50</sup> This is slightly higher while remaining in line with growth projections as made by several international development banks alongside the Philippine government, as set out in Table 1.

**Table 1: GDP Growth Forecasts**

GDP Growth Projections	2021	2022	2023
Government Projection	6.5%-7.5%	6.5%-7.5%	n/a
ADB (Apr 2021)	4.5%	5.5%	n/a

44 Philippine Statistics Authority. (2021). *Data Series: Annual National Accounts Linked Series (2000-2020) at Current and Constant 2018 Prices, as of April 8, 2021*. [Philippine Statistics Authority | Republic of the Philippines \(psa.gov.ph\)](https://psa.gov.ph)

45 Philippine Statistics Authority. (2021). *Data Series: Annual National Accounts Linked Series (2000-2020) at Current and Constant 2018 Prices, as of April 8, 2021*. [Philippine Statistics Authority | Republic of the Philippines \(psa.gov.ph\)](https://psa.gov.ph)

46 Philippine Statistics Authority. (2021). *Data Series: Annual National Accounts Linked Series (2000-2020) at Current and Constant 2018 Prices, as of April 8, 2021*. [Philippine Statistics Authority | Republic of the Philippines \(psa.gov.ph\)](https://psa.gov.ph)

47 Philippine Statistics Authority. (2021). *Data Series: Annual National Accounts Linked Series (2000-2020) at Current and Constant 2018 Prices, as of April 8, 2021*. [Philippine Statistics Authority | Republic of the Philippines \(psa.gov.ph\)](https://psa.gov.ph)

48 Philippine Statistics Authority. (2021). *Data Series: Annual National Accounts Linked Series (2000-2020) at Current and Constant 2018 Prices, as of April 8, 2021*. [Philippine Statistics Authority | Republic of the Philippines \(psa.gov.ph\)](https://psa.gov.ph)

49 Asian Development Bank Southeast Asia Development Solutions. (2020). *ADB Cuts Southeast Asia Growth Forecast in 2020 due to Covid-19*. [ADB Cuts Southeast Asia Growth Forecast in 2020 due to COVID-19 | SEADS](https://seads.adb.org/)

50 The Bloomberg Composite median is drawn from 32 Bloomberg-affiliated contributors that are: Fitch Ratings, HSBC Holdings, Standard Chartered, Citigroup, Fitch Solutions, Bank of America Merrill Lynch, Barclays, JPMorgan Chase, Union Bank of Switzerland (UBS), Nomura Securities, ING Group, Dekabank Deutsche Girzentrale, Credit Agricole CIB, Julius Baer, ABN Amro, Australian & New Zealand Banking Group, BDO Unibank, Bloomberg Economics, Capital Economics, Development Bank of Singapore (DBS) Group, Deutsche Bank, Goldman Sachs Group, Moody's, Morgan Stanley, National Australia Bank & Bank of New Zealand (NAB/BNZ), Oxford Economics, Rizal Commercial Banking Corporation, Scotiabank, Security Bank Corporation, Skandinaviska Enskilda Banken, Sun Life of Canada Philippines Incorporates, and Union Bank of the Philippines. Bloomberg Finance L.P. (2021). *Economic Forecasts for Philippine Real GDP*.

IMF (Apr 2021)	6.9%	n/a	n/a
World Bank (Mar 2021)	5.5%	6.3%	6.2%
Fitch Ratings (July 2021)	5.0%	6.6%	n/a
Moody's (July 2021)	5.3%	6.5%	8.3%

Source: National Economic and Development Authority. (2021). *Sulong Philippines: pre-SONA of the Economic Development and Infrastructure Clusters Forum*; Asian Development Bank (2021). *GDP Growth Rate: Philippines*; International Monetary Foundation. (2021). *Countries: Philippines, Country Data*; and The World Bank (2021). *World Bank DataBank: Philippines*.

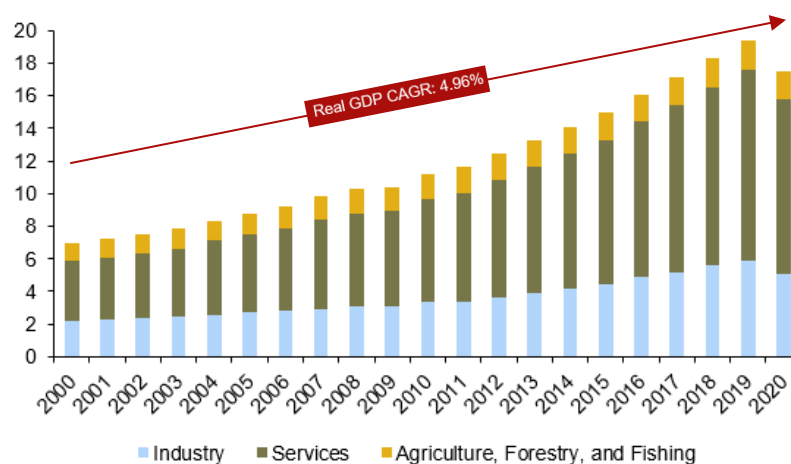
**Figure 12: Real GDP by Sector and Sub-Sector (2020)**



Source: Philippine Statistics Authority. (2021). *Annual National Accounts Series (2000-2020)*.

Prior to the outbreak of Covid-19, the Philippine economy had experienced sustained and robust growth; between 2009 and 2019, real GDP grew at an CAGR of 7.1%<sup>51</sup>, whilst 2019 growth registered 6.1%.<sup>52</sup> According to the World Bank, Philippine economic growth before the pandemic was driven by strong consumer demand, a vibrant labour market, notable service sector performance, and robust remittances.<sup>53</sup>

**Figure 13: Real GDP by Sector in Philippines 2000-2020 (Philippine Pesos Trillion)**



Source: Philippine Statistics Authority. (2021). Annual National Accounts Linked Series (2000-2020) at Current and Constant 2018 Prices as of April 8, 2021.

In 2020, Luzon represented 69.2% of real GDP, while Visayas represented 13.6%, and Mindanao 17.2%.<sup>54</sup> For each of the three regions, the services sector constitutes between 50% to 65% of GDP, with Luzon having the highest proportion (62.7%) and Mindanao the lowest (52.2%). Luzon has a larger presence of financial and professional services, while Visayas and Mindanao have a higher proportion of trade, education, and transportation. Industry constitutes 30.5% of Luzon's regional GDP, while for both Visayas and Mindanao industry only constitutes approximately 26%. Manufacturing plays a larger role in Luzon (20.8%) than it does in Visayas (14.5%) or Mindanao (13.1%). Agriculture, forestry, and fishing make up a larger proportion of Mindanao's regional GDP (21.6%) than in Visayas (13.0%) and Luzon (6.7%).

<sup>51</sup> Philippines Department of Energy. (2019). *Key Energy Statistics 2019*. [2019-key-energy-statistics.pdf \(doe.gov.ph\)](https://www.doe.gov.ph/2019-key-energy-statistics.pdf)

<sup>52</sup> Philippines Statistics Authority. (2021). *National Accounts Latest Estimates: 1<sup>st</sup> Quarter 2021*. [Philippine Statistics Authority | Republic of the Philippines \(psa.gov.ph\)](https://psa.gov.ph/Republic-of-the-Philippines)

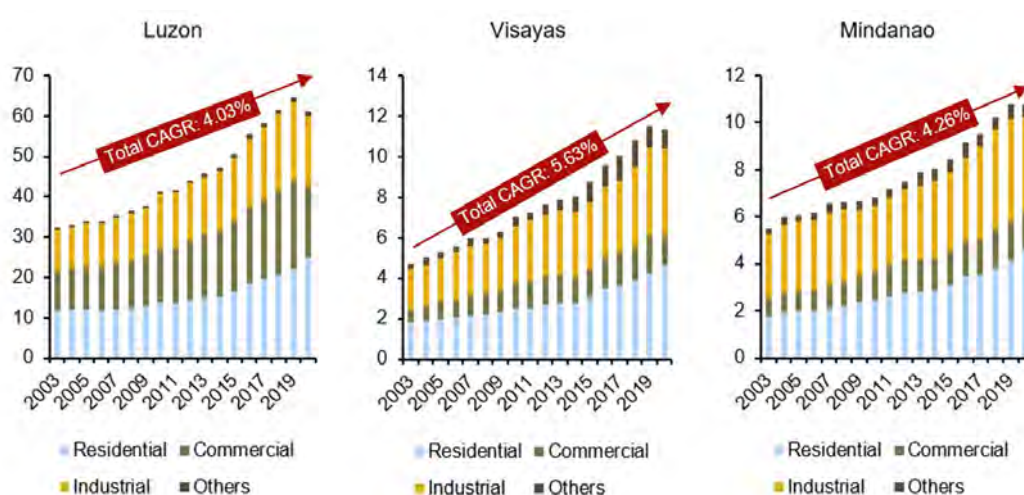
<sup>53</sup> World Bank. (2020). *From Containment to Recovery: Economic Update for East Asia and the Pacific*. [From Containment to Recovery: Economic Update for East Asia and the Pacific, October 2020 \(worldbank.org\)](https://www.worldbank.org/From-Containment-to-Recovery-Economic-Update-for-East-Asia-and-the-Pacific-October-2020)

<sup>54</sup> Philippines Statistics Authority. (2021). *Data Series: Gross Domestic Regional GDP by Industry (2000-2020) at Current and Constant 2018 Prices, as of April 8, 2021*.

### 1.1.3. Electricity Consumption and Projections

Total final electricity consumption (TFEC) in the Philippines reached a high of 562.2 TWh in 2019, a 3.48% increase over 2018.<sup>55</sup> The CAGR for TFEC between from 2003 to 2019 was 4.2%.<sup>56</sup> Consumption in Visayas and Mindanao grew at 5.6% and 4.3% respectively over the same period, while growth in Luzon was slower at 4.0%.<sup>57</sup> While national growth has been spread across the commercial, industrial, and residential sectors, Visayas has experienced relatively more rapid industrial growth and Mindanao has seen relatively more commercial growth.

**Figure 14: Consumption by Region & Segment (TWh)**



Source: Department of Energy. (2020). 2003-2020 Electricity Sales and Consumption per Grid, by Sector.

A variety of factors provide a supportive backdrop for continued electricity demand growth in the Philippines:

- Strong linkages between the economy and electricity consumption:** The strong relationship between GDP and electricity demand is demonstrated by how their elasticities were 0.98 in 2015-2019 prior to Covid-19.<sup>58</sup> The smaller and less economically developed regions, Visayas and Mindanao, have tended to be more elastic at 1.1 and 1.2 respectively, meaning that electricity growth is more sensitive to changes in GDP.

<sup>55</sup> Department of Energy. (2020). *Energy Situationer*.  
[https://www.doe.gov.ph/sites/default/files/pdf/announcements/1\\_Energy%20Situationer\\_19Aug2020.pdf](https://www.doe.gov.ph/sites/default/files/pdf/announcements/1_Energy%20Situationer_19Aug2020.pdf)

<sup>56</sup> Department of Energy. (2021). *2020 Power Statistics*.

<sup>57</sup> Department of Energy. (2021). *Energy Consumption: Total Final Energy Consumption by Sector*.  
<https://www.doe.gov.ph/energy-consumption>

<sup>58</sup> Philippine Statistics Authority. (2021). *Annual National Accounts Linked Series (2000-2020)*, (at Current and Constant 2018 Prices as of April 2021); and, NGCP. (2021). *Energy Delivery Per Region*. <https://www.ngcp.ph/operations#operations>

- **Population growth and demographics:** Governmental estimates posit that the Philippines population is growing by approximately 1.5 million people each year.<sup>59</sup> Population growth drives significant need for infrastructure<sup>60</sup> and the comparatively youthful skew of Philippine demographics supports a rapidly growing workforce (Figure 15).
- **Climatic conditions:** The hot and humid climate of the Philippines points to the growing need for space cooling. In Metro Manila, an observable relationship exists between increasing temperatures and increased electricity demand.<sup>61</sup>
- **Continued electrification:** As of 2019, whereas the Luzon region had achieved an electrification rate of 98% of the population in Luzon, the electrification rates in the Visayas and in Mindanao, respectively, are 94% and 80%.<sup>62</sup> In particular, more electrification is needed in remote areas such as the Bangsamoro Autonomous Region in Muslim Mindanao and Zamboanga Peninsula.

As outlined in a recent (2021) consultation draft of the Transmission Development Plan (TDP), NGCP expects electricity demand to grow at an AAGR of 6.23% between 2021 to 2025, 6.73% for 2026 to 2030, and 6.49% for 2031 to 2040.<sup>63</sup>

NGCP projects peak demand to almost double (from a peak national demand of 15,282 MW in 2020, to reach 28,631 MW) by 2030 and almost quadruple by 2040 (reaching 53,569 MW).<sup>64</sup> Mindanao's electricity demand is projected to have the highest AAGR between 2021 and 2040 at 7.7%.<sup>65</sup>

<sup>59</sup> Philippines Statistics Authority. (2020). *Updated Projected Mid-Year Population for the Philippines Based on the 2015 POPCEN Results: 2020-2025*. <https://psa.gov.ph/statistics/census/projected-population>

<sup>60</sup> Asian Development Bank. (2018). *Philippines: Energy Sector Assessment, Strategy, and Road Map*. [Philippines: Energy Sector Assessment, Strategy, and Road Map \(adb.org\)](https://www.adb.org/publications/philippines-energy-sector-assessment-strategy-and-road-map)

<sup>61</sup> Philippine Statistics Authority (2021). *Energy Delivery Per Region*. <https://www.ngcp.ph/operations#operations>; and, Philippine Atmospheric, Geophysical, and Astronomical Services Administration. (2021). *Climate of the Philippines Statistics*.

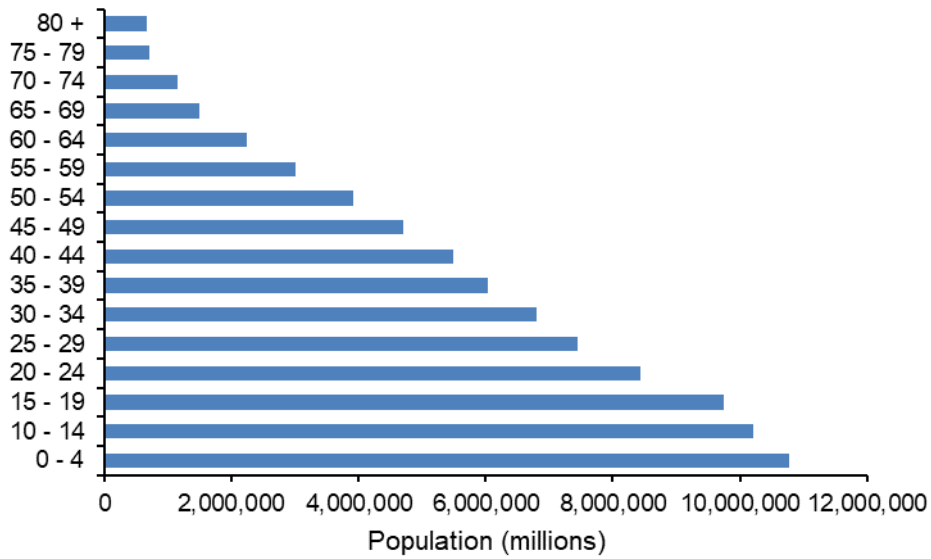
<sup>62</sup> Department of Energy. (2020). *2019 Key Energy Statistics*. [https://www.doe.gov.ph/sites/default/files/pdf/energy\\_statistics/2019-key-energy-statistics.pdf](https://www.doe.gov.ph/sites/default/files/pdf/energy_statistics/2019-key-energy-statistics.pdf)

<sup>63</sup> National Grid Corporation of the Philippines. (2021). *Transmission Development Plan 2021-2040 Consultation Draft*.

<sup>64</sup> National Grid Corporation of the Philippines. (2021). *Transmission Development Plan 2021-2040 Consultation Draft*.

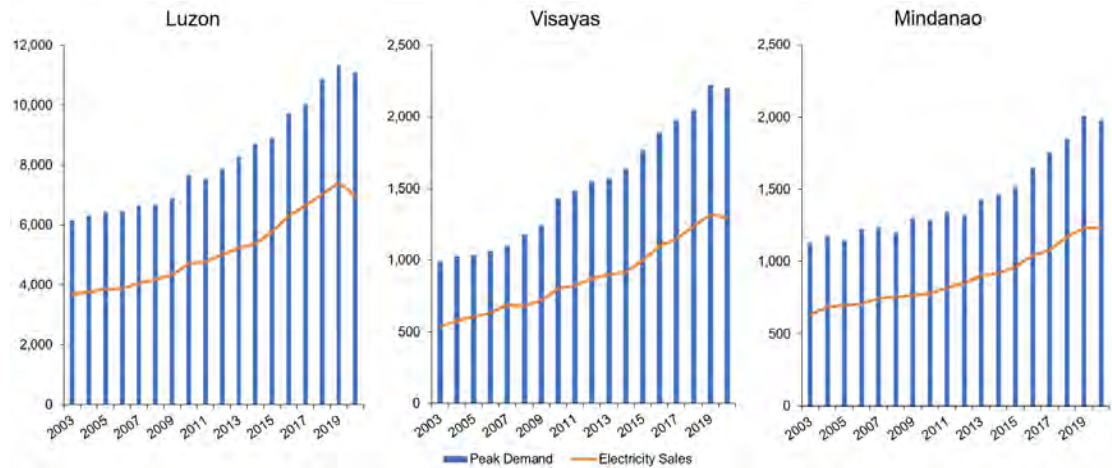
<sup>65</sup> National Grid Corporation of the Philippines. (2021). *Transmission Development Plan 2021-2040 Consultation Draft*.

**Figure 15: Population by Age Group (2010 Census)**



Source: Philippine Statistics Authority. (2010). Table 1. Projected Population, by Age Group, Sex, and by Five-Calendar Year Interval, Philippines: 2010 - 2045 (Medium Assumption).

**Figure 16: DoE Historical and Forecast System Peak Demand, and National Electricity Sales per Region (MW)**



Source: National Grid Corporation of the Philippines. (2021). Transmission Development Plan 2021-2040 Consultation Draft; and Department of Energy. (2021). Power Statistics: Sales and Consumption per Grid, by Sector as of April 2021.

The DoE prepares the Philippine Energy Plan (PEP), which issues demand-side and supply-side forecasts based on the Philippine Development Plan (PDP) and governmental policy goals. The PEP considers two scenarios – a Reference Case, which projects business as usual and a Clean Energy Scenario that assumes 10,000 MW of renewable electricity and LNG by 2040. Projected electricity consumption growth rates are similar to NGCPs with a CAGR of 6.7% under the Reference Case scenario and 6.5% under the Clean Energy Scenario.<sup>66</sup> In both outlooks, the electrification of transportation is expected to drive a large portion of future demand growth. While the transportation sector currently represents less than 0.1% of overall electricity consumption, its share is expected to grow to 4.5% of total electricity consumption by 2040 under the Reference Case and 9.1% under the Clean Energy Scenario, and. All told, this equates to approximately 15,500 GWh of new demand under the Reference Case and 30,000 GWh under the Clean Energy Scenario. This is equivalent to about a fifth and a third, respectively, of total electricity consumption in 2020. In particular, the DoE expects new light railway systems and the penetration of electric vehicles in the market to drive this growth.<sup>67</sup>

In terms of generation capacity, the PEP projects installed capacity to reach 50.9 GW in 2030 and 90.6 GW in 2040 under its Reference Case, compared to 50.7 GW in 2030 and 93.5 GW in 2040 in the Clean Energy Scenario. By contrast, total installed capacity in 2020 was 25.2 GW, with 17.0 GW in Luzon, 3.8 GW in Visayas, and 4.4 MW in Mindanao.<sup>68</sup>

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<sup>66</sup> Department of Energy. (2018). *Philippine Energy Plan 2018-2040*. p.35. [https://www.doe.gov.ph/sites/default/files/pdf/pep/pep-2018-2040\\_20210323.pdf](https://www.doe.gov.ph/sites/default/files/pdf/pep/pep-2018-2040_20210323.pdf)

<sup>67</sup> Department of Energy. (2018). *Philippine Energy Plan 2018-2040*. p.35. [https://www.doe.gov.ph/sites/default/files/pdf/pep/pep-2018-2040\\_20210323.pdf](https://www.doe.gov.ph/sites/default/files/pdf/pep/pep-2018-2040_20210323.pdf)

<sup>68</sup> Department of Energy. (2021). *Installed and Dependable Capacity per Grid, by Plant Type as of April 2021*.

## 1.2. STRUCTURE OF THE POWER SECTOR

### 1.2.1. Key Industry Reforms

The EPIRA, passed in 2001, mandated significant industry structural, market, and ownership reforms. Prior to these reforms, transmission, generation and grid operation services were undertaken by the government-owned National Power Corporation (NPC).<sup>69</sup> Over the past two decades, the Philippine electricity sector has become substantially unbundled, privatised and commercially oriented.<sup>70</sup> Reform and deregulation efforts have encompassed all sectors – generation, transmission, distribution, and retail sales – and have led to active private sector participation across the power sector value chain.<sup>71</sup>

The EPIRA continues to provide the legislated foundation for the full liberalisation and unbundling of the power sector. The EPIRA promotes competition through the privatisation of NPC's distribution assets, non-Independent Power Producer (IPP) power generation assets, and the electricity transmission sector, in effect widening private sector participation beyond already-existing IPP projects.<sup>72</sup> EPIRA allows NPC to retain smaller transmission and generation assets for the electrification of remote areas (as further discussed in Section 2.1.2). By restructuring NPC and absorbing NPC's Philippine Peso (PhP) 200 billion debt, EPIRA established a new National Transmission Corporation (TransCo), the legal owner of the transmission grid, as well as the Power Sector Assets and Liabilities Management Corporation (PSALM). PSALM is an asset management corporation wholly owned and controlled by the government and is tasked with overseeing the privatisation or effective transfer of control of the NPC's remaining owned or contracted generation assets.<sup>73</sup>

The EPIRA paved the way for NGCP to become a concessionaire of the transmission operations from TransCo, and it also bans NGCP's shareholders from owning any other interests in the sector.<sup>74</sup> The Act also requires NGCP to connect and wheel power in the transmission system on a non-discriminatory basis.

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69 Power Sector Assets & Liabilities Management Corporation. (2021). *Privatization: Objectives*. <https://www.psal.gov.ph/objective>

70 Department of Energy. (2008). *Unbundling of Rates*

71 World Bank. (2015). *Private Sector Participation in Electricity Transmission and Distribution: Experiences from Brazil, Peru, the Philippines, and Turkey*. ESMAP Paper.

72 Philippine Government. (2001). *Republic Act No. 9136. An Act Ordaining Reforms in the Electric Power Industry, Amending for the Purpose Certain Laws and For Other Purposes (EPIRA)*. [https://www.napocor.gov.ph/images/about\\_us/EPIRA\\_RA9136.pdf](https://www.napocor.gov.ph/images/about_us/EPIRA_RA9136.pdf)

73 Power Sector Assets & Liabilities Management Corporation. (2021). *About Us*. <https://www.psal.gov.ph/corporate>

74 National Grid Corporation of the Philippines. (2021). *Corporate Profile: History*. <https://www.ngcp.ph/profile#history>

The EPIRA also established the framework that created the WESM, which commenced operations in Luzon in 2006 and later extended Visayas in 2010. The WESM is also planned to include Mindanao. The EPIRA places an obligation on DUs and ECs to supply electricity in the least cost manner to end-users.<sup>75</sup> The EPIRA led to the formation of the Philippine Electricity Market Corporation (PEMC) to run the WESM on an interim basis until that responsibility could be handed over to an independent market operator, a transfer that occurred in September 2018 when the market operations of WESM were handed over the newly formed Independent Electricity Market Operator of the Philippines (IEMOP), although PEMC still retained the role of governing the WESM.<sup>76</sup> Additionally, the Energy Regulatory Commission (ERC) was created to combine quasi-judicial, quasi-legislative, and administrative functions as an independent regulator for the energy market. EPIRA mandated the eventual creation of a WESM Reserve, however, this instruction has yet to be implemented.

The reforms under EPIRA were wide ranging. This led to the restructuring and unbundling of tariffs into generation, transmission, distribution, and system loss charges, as well as a variety of other recovery charges and taxes.<sup>77</sup> The EPIRA reforms led to the adoption of more cost-reflective electricity pricing and the elimination of material subsidies in the new WESM and throughout the Philippine energy sector. Additionally, the Act mandated the adoption of performance-based regulation for electricity transmission and distribution systems.<sup>78</sup>

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<sup>75</sup> Department of Energy. (2021). *An Introduction to the Philippine Electric Power Industry*.

<sup>76</sup> Philippine Government. (2001). *Republic Act No. 9136. An Act Ordaining Reforms in the Electric Power Industry, Amending for the Purpose Certain Laws and For Other Purposes (EPIRA)*. [https://www.napocor.gov.ph/images/about\\_us/EPIRA\\_RA9136.pdf](https://www.napocor.gov.ph/images/about_us/EPIRA_RA9136.pdf)

<sup>77</sup> Philippine Government. (2001). *R.A. 9136, Electric Power Industry Reform Act of 2001: Wholesale Electricity Spot Market Rules (As Amended)*.

<sup>78</sup> Philippine Government. (2001). *R.A. 9136, Electric Power Industry Reform Act of 2001: Wholesale Electricity Spot Market Rules (As Amended)*.

The EPIRA set out many longer-term objectives, as well as interim milestones. The EPIRA proposed open access and retail competition to enable end-users to select their electricity suppliers, and distribution utilities.<sup>79</sup> This EPIRA proposal subsequently gave rise to RCOA, wherein retail supply options were first offered to large customers in 2013. Phases 1, 2 and 3 of RCOA regulation have now been implemented, allowing electricity end-users with an average peak demand of 500 kilowatts (kW) and above to choose their power supplier. Aiming to be implemented in January 2022, Phase 4 will extend retail choice to end-users of greater than 100 kW peak demand. Full implementation of the final Phase 5 is to be achieved in January 2023, which will allow any end-user with over 10 kW to choose their supplier.<sup>80</sup> Further achieving EPIRA's goals, PSALM had privatised over 70% of NPC's contracted capacity in Luzon and Visayas by 2010.<sup>81</sup> One of the remaining goals involves extending WESM to Mindanao are also goals to begin WESM's commercial operations in Mindanao in 2021.<sup>82</sup>

### 1.2.2. Wholesale Market and Supply

Established under the EPIRA and introduced in 2006, the WESM serves both Luzon and Visayas and is planned to be extended to Mindanao in 2021.<sup>83</sup>

The WESM's market design is relatively more comparable to wholesale market designs found in New Zealand, Singapore, Eastern Australia (the National Electricity Market or NEM), and ERCOT (Texas), as examples for reference. The WESM operates as a pool market where both contracted and uncontracted capacity are bid into the market.<sup>84</sup> The WESM is a nodal market in which prices are separately determined at each numerous grid injection and offtake points.<sup>85</sup> The intention is also for the WESM to incorporate a reserve market, specifically regulation and contingency reserves, which is targeted for launch in 2022.<sup>86</sup>

79 Philippine Government. (2001). *Republic Act No. 9136. An Act Ordaining Reforms in the Electric Power Industry, Amending for the Purpose Certain Laws and For Other Purposes (EPIRA)*. [https://www.napocor.gov.ph/images/about\\_us/EPIRA\\_RA9136.pdf](https://www.napocor.gov.ph/images/about_us/EPIRA_RA9136.pdf)

80 Department of Energy. (2021). *Retail Competition and Open Access (RCOA)*. <https://www.doe.gov.ph/rcoa?page=1>

81 Power Sector Assets & Liabilities Management Corporation. (2021). *Privatization Update: Generation Assets Sold*. <https://www.psalms.gov.ph/privatization/generationassets>

82 Philippine Electricity Market Corporation. (2021). *WESM Mindanao*. <https://www.wesm.ph/market-development/wesm-mindanao>

83 Department of Energy. (2017). *Declaring the Launch of the Wholesale Electricity Spot Market (WESM) in Mindanao and Providing for Transition Guidelines*. Department Circular No. DC2017-05-0009. <https://www.doe.gov.ph/electric-power?q=laws-and-issuances/departament-circular-no-dc2017-05-0009-0>; and Philippine Government. (2001). *Republic Act No. 9136. An Act Ordaining Reforms in the Electric Power Industry, Amending for the Purpose Certain Laws and For Other Purposes (EPIRA)*. [https://www.napocor.gov.ph/images/about\\_us/EPIRA\\_RA9136.pdf](https://www.napocor.gov.ph/images/about_us/EPIRA_RA9136.pdf)

84 Department of Energy. (2017). *Operation of the WESM*.

85 Philippine Electricity Market Corporation. (2017). *WESM Price Determination Methodology*.

86 Independent Electricity Market Operator of the WESM. (2021). *Market Development: Ancillary Services*.

The generation sector is substantially privatised with an active development and investment environment. There is a diverse mix of ownership among privately-owned power generation companies, known as Independent Power Producers (IPPs). Key local market participants include major domestic companies including San Miguel Corporation, Aboitiz Power, First Gen, and Energy Development Corporation.<sup>87</sup> Alongside IPPs, PSALM continues to control around 10% of the overall generation capacity in the market as of 2020, as there remains some capacity, predominately in Luzon and Mindanao,<sup>88</sup> that is yet to be privatised,<sup>89</sup> PSALM provided a recent update (2021) on its progress against its privatisation objective.<sup>90</sup>

### 1.2.3. Distribution Utilities and Demand

The demand and offtake environment in the Philippines is highly diverse. Small customers purchase electricity from their local DU or EC, whilst larger customers, currently with demand greater than 500 kW and whom have received a Certificate of Contestability by the ERC, are deemed 'contestable' and can elect to purchase electricity through a retailer rather than their DU.<sup>91</sup> Both DUs and ECs are licensed by the ERC to sell electricity to end-users in their distribution franchise areas.<sup>92</sup> EPIRA Section 43(f) mandates the ERC's power in overseeing both types of DU, but EPIRA also mandates the National Electrification Administration (NEA) to regulate ECs.<sup>93</sup>

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<https://www.iemop.ph/market-development/>

87 Department of Energy. (2020). *2019 Key Energy Statistics*. <https://www.doe.gov.ph/energy-statistics?q=energy-statistics/2019-key-energy-statistic>

88 Power Sector Assets & Liabilities Management Corporation. (2021). *Privation: Remaining Power Assets*. <https://www.psal.gov.ph/rpa/rop>

89 Power Sector Assets & Liabilities Management Corporation. (2021). *Privatization: Remaining Power Assets*. <https://www.psal.gov.ph/rpa/rop>

90 Power Sector Assets & Liabilities Management Corporation. (2021). *Privatization Update: Generation Assets Sold*. <https://www.psal.gov.ph/privatization/generationassets>

91 Philippine Electricity Market Corporation. (2021). *WESM Rules (Enhanced WESM Design)*; and Philippine Electricity Market Corporation. (2018). *Retail Rules*. <https://www.wesm.ph/library/downloads/view-download/documents/enhanced-wesm-design/market-rules-and-manuals>

92 Department of Energy. (2021). *Distribution Utility Profile*. <https://www.doe.gov.ph/duprofile>

93 Philippine Government. (2001). *Republic Act No. 9136. An Act Ordaining Reforms in the Electric Power Industry, Amending for the Purpose Certain Laws and For Other Purposes (EPIRA)*. [https://www.napocor.gov.ph/images/about\\_us/EPIRA\\_RA9136.pdf](https://www.napocor.gov.ph/images/about_us/EPIRA_RA9136.pdf)

As private investor-owned utilities, DUs privately own their distribution assets, while ECs cooperatively own their assets unless they default on a loan from PSALM.<sup>94</sup> DUs and ECs can purchase wholesale electricity through PSAs, which are bilateral contracts with generation company for the purchase and supply of power, or from the WESM spot market.<sup>95</sup> There are 17 DUs and 119 ECs currently in operation, with the former accounting for 62.1% of electricity sales and largely operating in urban and industrialised areas.<sup>96</sup> The main DUs include Meralco in Metro Manila, VECO in Cebu, and Davao Light & Power Co. in Davao. In 2019, these three DUs alone accounted for 49.7% of electricity sales in the Philippines.<sup>97</sup> ECs, by contrast, are non-profit and member-owned organisations that typically serve smaller urban and rural areas.

Mandated by the EPIRA, the ERC sets wheeling rates for DUs for each regulatory period.<sup>98</sup> The ERC aims to reasonably compensate the PIOUs for economically efficient costs and risks incurred.<sup>99</sup> Wheeling charges are based on PIU revenue applications for each regulatory period and incorporate a forward-looking analysis of forecast cash flow requirements. For ECs, wheeling charges have tariff caps for each tariff component that are allocated based on their defined group (determined by number of customers and sales).<sup>100</sup> Within these categorised tariff caps, the ERC sets wheeling charges for ECs based on economic efficiency.

94 Department of Energy. (2019). *Restructuring Program for Electric Cooperatives*. [https://www.doe.gov.ph/sites/default/files/pdf/issuances/eo\\_no\\_119.pdf](https://www.doe.gov.ph/sites/default/files/pdf/issuances/eo_no_119.pdf)

95 Philippine Government. (2001). *Republic Act No. 9136. An Act Ordaining Reforms in the Electric Power Industry, Amending for the Purpose Certain Laws and For Other Purposes (EPIRA)*. [https://www.napocor.gov.ph/images/about\\_us/EPIRA\\_RA9136.pdf](https://www.napocor.gov.ph/images/about_us/EPIRA_RA9136.pdf); and Energy Regulatory Commission. (2003). *Appendix A: Power Supply Agreement Framework*.

96 Department of Energy. (2021). *Distribution Utility Profile*. <https://www.doe.gov.ph/duprofile>

97 MERALCO. (2020). *2019 Annual Report for MERALCO*; and Department of Energy. (2020). *Distribution Utility Profiles*.

98 Energy Regulatory Commission. (2021). *Approved Rate Schedules for Private Utilities and Electric Cooperatives*. <https://www.erc.gov.ph/ContentPage/180>

99 The World Bank, Energy Sector Management Assistance Program. (2015). *International Experience with Private Sector Participation in Power Grids: Philippines Case Study*. <https://documents1.worldbank.org/curated/en/546521467991997772/pdf/101756-WP-P146042-Box393265B-PUBLIC-Private-Sector-Participation-in-Power-Grids-Philippines.pdf>

100 The World Bank, Energy Sector Management Assistance Program. (2015). *International Experience with Private Sector Participation in Power Grids: Philippines Case Study*. <https://documents1.worldbank.org/curated/en/546521467991997772/pdf/101756-WP-P146042-Box393265B-PUBLIC-Private-Sector-Participation-in-Power-Grids-Philippines.pdf>

End-user electricity tariffs in the Philippines are cost reflective as there are no subsidies, while the tariff structure is unbundled into various charges. Generation charges tend to represent around 50% of the retail cost of power, while transmission charges are a pass-through of charges from NGCP.<sup>101</sup> Generation charges are adjusted quarterly to reflect changes to fuel and IPP procurement costs using the Generation Rate Adjustment Mechanism (GRAM).<sup>102</sup> Distribution charges are as described above.

Since the implementation of RCOA in 2013, Retail Electricity Suppliers (RESs) have also been able to supply contestable customers. Each retailer is licensed by the ERC. As of March 2021, there were 2,919 contestable customers and 117 retail electricity suppliers. An estimated 89% of these contestable customers were located in Luzon and the remaining 11% in Visayas.<sup>103</sup> These contestable customers were almost equally split between the industrial and commercial sectors. As of January 2021, retail contestability has been further extended to customers that have an average peak demand of 500 kW or greater.<sup>104</sup>

#### 1.2.4. Transmission

The National Transmission Corporation, also called 'TransCo' is the government entity that owns the transmission network and is mandated to provide open, non-discriminatory access to all electricity grid users.<sup>105</sup> In 2009, NGCP, a consortium of corporations, won a 25-year concession to operate, invest in, and maintain TransCo's network.<sup>106</sup> Under the concession agreement, NGCP is responsible for "operating, maintaining, and developing the country's state-owned power grid."<sup>107</sup> TransCo continues to be the legal entity that owns all transmission assets that are operated and developed by NGCP.

Similar to distribution charges from DUs and ECs, wheeling rates for use of the transmission network are approved by the ERC.<sup>108</sup> Wheeling charges are passed through by DUs or retailers directly to customer bills.

<sup>101</sup> Energy Regulatory Commission. (2021). *Primer on GRAM and ICERA*; and Energy Regulatory Commission. (2009). *Rules for Setting Transmission Wheeling Rates for 2003 to around 2027*.

<sup>102</sup> The Generation Rate Adjustment Mechanism (GRAM) is an automatic adjustment revised quarterly to reflect changes in fuel and IPP costs. This adjustment is based on a review by the ERC before costs are passed on to customers.

<sup>103</sup> Philippine Electricity Market Corporation. (2021). *Quarterly Retail market Assessment Report (January-March 2021)*.

<sup>104</sup> Department of Energy. (2021). *Retail Competition and Open Access (RCOA)*. <https://www.doe.gov.ph/rcoa?page=1>

<sup>105</sup> National Transmission Corporation. (2021). *The National Transmission Corporation*. <https://www.transco.ph/about#226880>

<sup>106</sup> Power Sector Assets & Liabilities Management Corporation. (2021). *The Privatization of National Transmission Corporation*. <https://www.psalgm.gov.ph/transmissionassets>

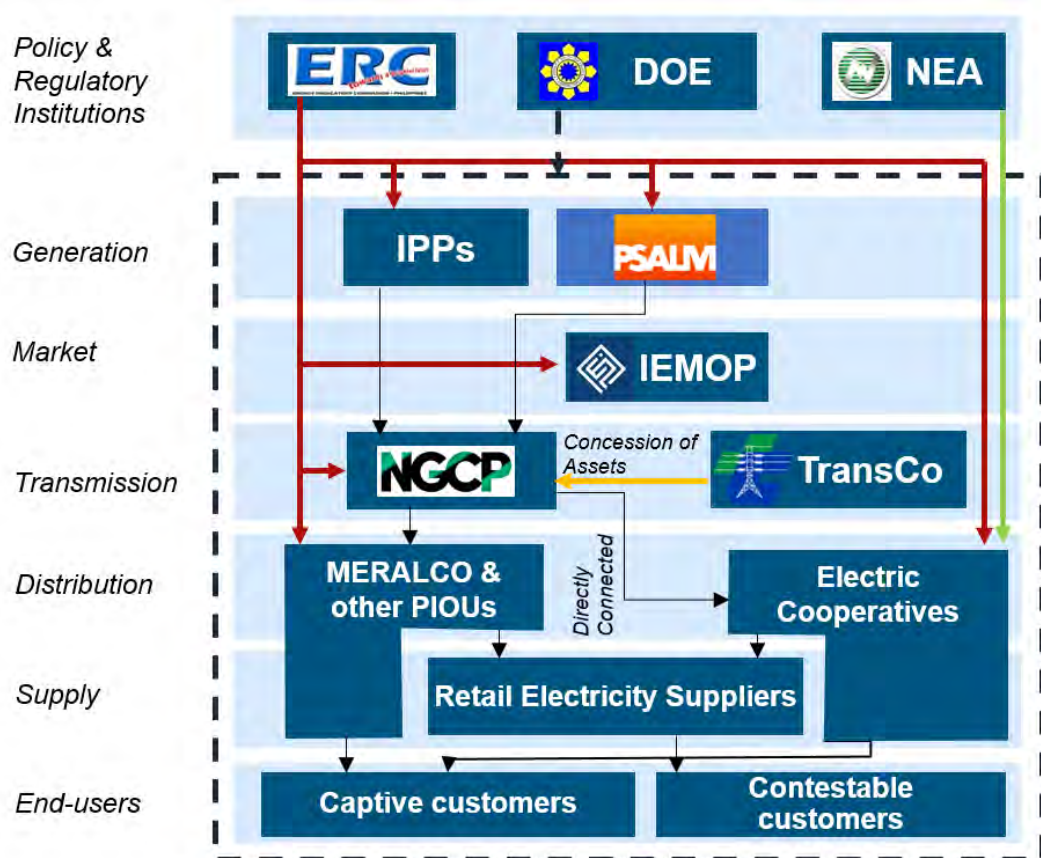
<sup>107</sup> National Grid Corporation of the Philippines. (2021). *Corporate Profile: The Company*. <https://www.ngcp.ph/profile>

<sup>108</sup> Energy Regulatory Commission. (2009). *Rules for Setting Transmission Wheeling Rates for 2003 to around 2027*.

### 1.2.5. Governance and Regulation

Figure 17 summarises key government and agency stakeholders, in addition to the categories of private sector participants. Each of these key government and agency stakeholders is discussed below.

**Figure 17: Current Structure of the Philippine Power Industry**



Source: The Lantau Group (2021).

The **Department of Energy (DoE)** is responsible for energy policy and planning, including the formulation of the Philippines Energy Plan (PEP 2016-2030, and PEP 2017-2040) and the Power Development Plan.<sup>109</sup> While the PEP sets out targets for development across the energy sector, the Power Development Plan is a master plan that integrates all development plans for generation, supply, transmission, and distribution for both on- and off-grid plans. The DoE reports to the Office of the President and supervises the reform process of the energy sector following EPIRA. The DoE oversees PSALM and TransCo, in addition to the government-controlled entities within the energy sector such as the National Electrification Administration (NEA). The DoE appoints senior officials for these organizations and coordinates strategy, including for privatization, generation mix, system upgrades, and electrification, among these entities. The DoE oversees the privatization of government assets and deregulation in the energy sector such as the RCOA regulation, the Renewable Energy Act, and EPIRA. The DoE also determines energy generation priorities – for example, recently having decreed a moratorium on new coal-fired projects while allowing full foreign ownership of geothermal projects.<sup>110</sup>

The **Energy Regulatory Commission (ERC)** oversees the regulation of the power industry.<sup>111</sup> Among other duties, the ERC is responsible for approving bilateral PSAs, determining consumer contestability, and setting the distribution wheeling rates of Distribution Utilities (DUs) and Electric Cooperatives (ECs) as well as non-contestable retail rates.<sup>112</sup> For transmission, the ERC sets the transmission wheeling rates and needs to approve NGCP revenues (under the Performance-Based Regulation) and tariffs as well as Ancillary Service Procurement Agreements (ASPs).<sup>113</sup> The ERC plays a role in approving development plans for transmission that are submitted to the DoE and included in NGCP's Transmission Development Plans (TDP). The ERC approves projects according to the goals of the National Economic and Development Authority's (NEDA's) Philippine Development Plan (PDP). The ERC also enforces the Philippine Grid Code for both transmission and distribution facilities.<sup>114</sup>

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- 109 Department of Energy. (2021). *Bureaus and Services Functions*. <https://www.doe.gov.ph/transparency/bureaus-and-services-functions>
- 110 Department of Energy. (2020). *Advisory on the Moratorium of Endorsements for Greenfield Coal-Fired Power Projects in Line with Improving the Sustainability of the Philippines' Electric Power Industry*. <https://www.doe.gov.ph/announcements/advisory-moratorium-endorsements-greenfield-coal-fired-power-projects-line-improving>
- 111 Energy Regulatory Commission. (2021). *History of ERC*. <https://www.erc.gov.ph/ContentPage/13>
- 112 Energy Regulatory Commission. (2021). *Annex A: Rules for Setting Distribution Wheeling Rates for Privately Owned Electricity Distribution Utilities Operating Under Performance Based Regulation*.
- 113 Energy Regulatory Commission. (2021). *Mandate, Mission, and Vision*. <https://www.erc.gov.ph/ContentPage/17>
- 114 Energy Regulatory Commission (2001). *Philippine Grid Code*. [https://www.doe.gov.ph/sites/default/files/pdf/electric\\_power/power\\_industry\\_reforms/philippine\\_grid\\_code.pdf](https://www.doe.gov.ph/sites/default/files/pdf/electric_power/power_industry_reforms/philippine_grid_code.pdf)

The **National Electrification Administration (NEA)** is responsible for rural electrification and assisting the ECs that service less-developed regions of the Philippines.<sup>115</sup> The NEA is a government-owned corporation formed in 1969 through the RA 6038 to develop the country through rural electrification.<sup>116</sup> In 1988, NEA shifted from focusing on total electrification to focusing on strengthening rural electrification by managing ECs and making ECs more competitive.<sup>117</sup> The NEA provides financial, institutional, and technical services to ECs. Since EPIRA in 2001, NEA's franchising functions were shifted to Congress, before being granted to the ERC in 2006. Franchising grants members of the public the right to operate and EC in a designated area.<sup>118</sup> With EPIRA, NEA also undertook several new roles:

- Act as guarantor for EC or small DU purchases of electricity in WESM;
- Identify and assist ECs that need either performance improvement or rehabilitation;
- Monitor ECs and prepare them for operating and competing in a deregulated market. Strengthen EC technical capability, management, and financial viability; and
- For ECs with significant financial deficiency, NEA is tasked with taking them over and sustaining electricity delivery while they undergo rehabilitation.

Governed by representatives of the electricity industry and independent members, **the Philippine Electricity Market Corporation (PEMC)** is a non-profit entity that reports to the DoE and is mandated to manage the WESM.<sup>119</sup> PEMC previously filled the role of market operator before handing over the role to the newly formed **Independent Market Operator of the WESM (IEMOP)** in 2018.<sup>120</sup> PEMC continues to govern the WESM through the Philippine Electricity Market Board of Directors and the WESM Governance Committees.<sup>121</sup>

115 National Electrification Administration. (2021). *About NEA*. <https://www.nea.gov.ph/ao39/about-us/about-nea>

116 Philippine Government. (1969). *An Act Declaring a National Policy Objective for the Total Electrification of the Philippines*. R.A. 6038. [https://lawphil.net/statutes/repacts/ra1969/ra\\_6038\\_1969.html](https://lawphil.net/statutes/repacts/ra1969/ra_6038_1969.html)

117 National Electrification Administration. (2021). *About Us*. <https://www.nea.gov.ph/ao39/about-us/about-nea?start=1>

118 Department of Energy. (2004). *Final Report: Technical Assistance to DoE for Enhancing Private Sector Participation in New and Renewable Energy Investments for Off-Grid Rural Electrification (Task 1- Refranchising Study)*. [https://www.doe.gov.ph/sites/default/files/pdf/downloads/new\\_renewable\\_energy\\_final\\_report.pdf](https://www.doe.gov.ph/sites/default/files/pdf/downloads/new_renewable_energy_final_report.pdf)

119 Philippine Electricity Market Corporation. (2021). *About PEMC*. <https://www.wesm.ph/about-us/about-pemc>

120 Philippine Government. (2001). *Republic Act No. 9136. An Act Ordaining Reforms in the Electric Power Industry, Amending for the Purpose Certain Laws and For Other Purposes (EPIRA)*. [https://www.napocor.gov.ph/images/about\\_us/EPIRA\\_RA9136.pdf](https://www.napocor.gov.ph/images/about_us/EPIRA_RA9136.pdf)

121 Philippine Electricity Market Corporation. (2021). *About Us*. <https://www.wesm.ph/about-us/about-pemc>

Since its inception on 26 September 2018, IEMOP operates as both the Independent Market Operator (IMO) of WESM and as the Central Registration Body (CRB) for the retail electricity market.<sup>122</sup>

For the WESM, IEMOP manages the platform for wholesale electricity trading, as well as processing bids and offers for electricity, forecasting demand, calculating real-time market prices and dispatch schedules, monitoring day-to-day trading, handling billing, settlement, and collections, as well as the registration of new entrants. IEMOP also has authority to impose penalties for breaches of market rules.<sup>123</sup> IEMOP also produces hourly generation schedules which the system operator, NGCP, uses to instruct dispatch of generators. Unlike PEMC, IEMOP is autonomous and private even though it acts under DoE and ERC mandates.

As CRB for the retail market, IEMOP operates through RCOA and aims to foster competition. IEMOP maintains a registry of suppliers and contestable customers, tracks market transactions, and facilitates customer-switching. IEMOP will also play a pivotal role in being primary registrar for the Renewable Energy Market (REM) which is scheduled to open in 2021. The REM will serve as the venue for trading Philippine Renewable Energy Certificates (RECs).

### 1.3. POLICY ENVIRONMENT

As in other jurisdictions, electricity policy goals often form part of broader social policies. In the Philippines, the most recent broad policy vision is AmBisyon Natin 2040 (“Our Vision 2040”), which was announced in 2016 by the then-incoming Duterte administration. To support these broad nationwide policy goals, individual agencies typically have their own plans for five-year terms. Periodically, the Philippines Government publishes a series of plans to direct the energy industry to achieve socioeconomic goals for the country. These schemes fall within economy-wide plans for development and can include goals for NGCP’s transmission operations. President Duterte’s six-year term ends in 2022, and under current laws he cannot serve another term.<sup>124</sup>

<sup>122</sup> Independent Electricity Market Operator. (2021). *What We Do*. <https://www.iemop.ph/about/what-we-do/>

<sup>123</sup> Philippine Electricity Market Corporation. (2020). *Annual Market Assessment Report: 26 November 2018 to 25 November 2019*. <https://www.wesm.ph/market-outcomes/market-assessment-reports/annual-market-assessment-report>

<sup>124</sup> Philippine Government. (2021). *The Executive Branch*. <https://www.officialgazette.gov.ph/about/gov/exec/#:~:text=bureaus%2C%20and%20offices,-.The%20President%20of%20the%20Philippines,and%20is%20ineligible%20for%20reelection.>

### 1.3.1. Key Policy Drivers

AmBisyon Natin 2040 sees the Philippines as a “prosperous, predominantly middle-class society by 2040,” and requires all plans of government agencies to be consistent with their vision to (1) ensure 24/7 reliable energy services, (2) create wealth for Filipinos, (3) empower consumers, (4) eradicate poverty, and (5) establish the Philippine agenda within the international community.<sup>125</sup> AmBisyon Natin 2040 designates the following sectors as priorities: housing and urban development, manufacturing, connectivity, education, tourism, agriculture, health and wellness, and financial services.

Announced in 2016 and aligned with AmBisyon Natin 2040, the ‘Build Build Build’ program (BBB) has been a centrepiece of the Duterte Administration. To address the infrastructure backlog in the Philippines, BBB envisages an infrastructure ‘golden age’ and aims to accelerate public infrastructure spending to 7.3% of GDP from 2.9% in the previous administration.<sup>126</sup>

The PDP is a plan published by the government every six years that sets out key goals and targets for major segments of the economy, with the most recent plan spanning 2017-2022. Historically, PDPs can signal or presage key policy initiatives and reforms such as streamlining the approval processes for energy projects by providing the DoE the authority to designate ‘Projects of National Significance.’ The most recent PDP incorporated expectations to expand WESM to Mindanao. Accordingly, NGCP and the DoE have advanced the Mindanao-Visayas interconnection project (MVIP). The PDP has also aligned with fast-tracking the Lanao to Davao 230 kilovolt (kV) Mindanao backbone transmission line development as well as outlining the need to further develop Mindanao’s grid structure for access and reliability.

The PDP laid out plans to implement RPS, Green Energy Auctions (GEAC), and the REM in 2021. The REM is to be a platform for trading RE certificates equivalent to an amount of renewable electricity. The REM is intended for mandated participants who need to comply with RPS obligations.<sup>127</sup> Led by IEMOP and the DoE, GEAC is to be a competitive auction for procurement of supply from RE projects for mandated RPS participants. The first such auction is indicated to occur in the second half of 2021.<sup>128</sup>

<sup>125</sup> Department of Energy. (2018). *Philippine Energy Plan 2018-2040*. <https://www.doe.gov.ph/pep?ckattempt=1>

<sup>126</sup> Philippine Government. (2016). *Build Build Build: Philippine Infrastructure Transparency Portal*. <http://build.gov.ph/>

<sup>127</sup> Independent Electricity Market Operator of the WESM. (2021). *Market Development: Renewable Energy*. <https://www.iemop.ph/market-development/>

<sup>128</sup> Independent Electricity Market Operator of the WESM. (2021). *Market Development: Renewable Energy*. <https://www.iemop.ph/market-development/>

The PDP also has outlined specific obligations for NGCP to adhere to ‘priority dispatch’ and ‘must dispatch’ protocols. The DoE designates intermittent renewable resources, namely wind, solar, run-of-river hydro, and ocean energy, whether or not under FIT system, as ‘must dispatch.’ Designated ‘priority dispatch,’ biomass plants under the FIT system are given preference over non-renewable generation.<sup>129</sup>

Normally published by the DoE bi-annually, but last published in 2018, the PEP is a national-level policy plan sets out a forecast for major energy supply and demand metrics.<sup>130</sup> Guided by PDP’s national strategy for development, the PEP provides a sectoral roadmap for energy. The PEP also promulgates a development strategy for the energy sector in the short-, medium-, and long-term. The PEP indicates a hierarchy of priorities in energy policy in an omnibus roadmap. The PEP has historically set the tone for energy development in the Philippines. The PEP specifies goals for PDP-defined ‘optimal’ fuel capacity mix in generation which has previously been directed towards electricity self-sufficiency and currently towards increasing renewable capacity.

### 1.3.2. Government Targets

In tandem with these ambitious goals, other medium-term targets have also been set out by five-year term plans. Each of these plans identifies its alignment with AmBisyon Natin 2040’s goals for inclusive growth.

#### *Philippine Development Plan (PDP)*

The PDP 2017-2022 set out several tangible goals that it aims to achieve by the end of 2022. These targets aim to lay the foundation for further inclusive growth leading up to the next mid-term plan and toward 2040.<sup>131</sup> Several of these targets are relevant to the electricity sector:<sup>132</sup>

- Increase infrastructure spending in GDP from 5.1% in 2016 to 7.4% in 2022;

<sup>129</sup> Department of Energy. (2015). *Promulgating the Framework for the Implementation of Must Dispatch and Priority Dispatch of Renewable Energy Resources in the Wholesale Electricity Spot Market*. DC2015-03-0001. <https://www.doe.gov.ph/sites/default/files/pdf/issuances/dc2015-03-0001.pdf>

<sup>130</sup> Department of Energy. (2018). *Philippine Energy Plan 2018-2040*. [https://www.doe.gov.ph/sites/default/files/pdf/pep/pep-2018-2040\\_20210323.pdf](https://www.doe.gov.ph/sites/default/files/pdf/pep/pep-2018-2040_20210323.pdf)

<sup>131</sup> National Economic and Development Authority. (2016). *AmBisyon Natin 2040*. <http://2040.neda.gov.ph/wp-content/uploads/2016/04/A-Long-Term-Vision-for-the-Philippines.pdf>

<sup>132</sup> National Economic and Development Authority Philippines. (2017). *Updated Philippine Development Plan 2017-2022*. <http://pdp.neda.gov.ph/wp-content/uploads/2021/02/20210218-Pre-publication-copy-Updated-Philippine-Development-Plan-2017-2022.pdf>

- Increase available capacity supply in the Philippines from 16,791 MW in 2016 to 24,248 MW by 2022. With Luzon increasing from 12,394 MW in 2016 to 17,272 MW in 2022, Visayas from 2,383MW to 3,105 MW, and Mindanao from 2,014 MW to 3,871 MW; and
- Increase electrification rates from 89.6% in 2016 to 100% by 2022.

### *Philippine Energy Plan (PEP)*

The most recent PEP, PEP 2018-2040, has aimed to build on the October 2016 Executive Order (EO5) which adopted the 25-year long term vision of AmBisyon Natin 2040.<sup>133</sup>

Consistent with this Executive Order, PEP 2018-2040 sets out several objectives:

- To bolster the use of clean and indigenous sources of energy for electricity generation in the Philippines. The PEP aims to do so to meet the growing economic development of the country;
- Mitigate wasted energy by embracing and developing energy efficiency tools; and
- To balance environmental protection, economic growth, reasonable energy prices for services and reliable energy supply.

The central policy of the most recent PEP is to simultaneously accommodate Philippine industrialisation, while bolstering the proportion of renewable energy in the capacity mix. The PEP 2018-2040 has provided a Reference Scenario and a Clean Energy Scenario for capacity outlook, power generation, and desired power projects by 2040 based on peak demand projections. The Reference Scenario implies business as usual with the continuation of present development trends and the completion of all committed power projects as well as the planned interconnection of Mindanao. The Clean Energy Scenario implies the same assumptions as the reference scenario as well as the addition of 10,000 MW of renewable and LNG aggregate capacity.<sup>134</sup>

For transmission, both the reference and Clean Energy Scenarios require the completion of Mindanao interconnection and small island interconnections such as Mindoro-Batangas, Semirara Occidental Mindoro, and Sulu-Basilan.<sup>135</sup> The Clean Energy Scenario requires expansion of transmission facilities for integration of new Competitive Renewable Energy Zones (CREZs) as well as the expansion of transmission facilities to integrate the planned 10,000 MW of renewable and LNG capacity.<sup>136</sup> CREZs are discussed in more detail in Section 2.7.1.

<sup>133</sup> Department of Energy. (2018). *Philippine Energy Plan 2018-2040*. <https://www.doe.gov.ph/pep?ckattempt=1>

<sup>134</sup> Department of Energy. (2017). *Philippine Energy Plan 101*. <https://www.doe.gov.ph/sites/default/files/pdf/announcements/iloilo-energy-101-01-pep-101.pdf>

<sup>135</sup> Department of Energy. (2018). *Philippine Energy Plan 2018-2040*. <https://www.doe.gov.ph/pep?ckattempt=1>

<sup>136</sup> Department of Energy. (2018). *Philippine Energy Plan 2018-2040*. <https://www.doe.gov.ph/pep?ckattempt=1>

## 2. TRANSMISSION LANDSCAPE WITHIN THE PHILIPPINES

### 2.1. TRANSMISSION LANDSCAPE AND GEOGRAPHIC SCOPE

The Philippines is an archipelago made up of 7,641 islands characterised by on-grid and off-grid power systems.<sup>137</sup> Development of the main transmission grid system has naturally had to take into account the country's geography, in particular to ensure efficient electricity transmission between the interconnected grids and sub-grids. Indeed, two of the main grid-connected regions, Luzon and Visayas, are interconnected via a 440 MW High Voltage Direct Current (HVDC) submarine cable, while the Visayas region itself consists of five interconnected sub-grids connecting Leyte, Cebu, Bohol, Negros, and Panay. The third grid-connected region, Mindanao, operates independently at present though the completion of the Mindanao-Visayas Interconnection Project (MVIP) by NGCP, currently expected in March 2022, will result in a unified transmission grid. The resulting unified grid and wholesale market will operate across all three main regions and will collectively account for around 98% of national electricity demand.

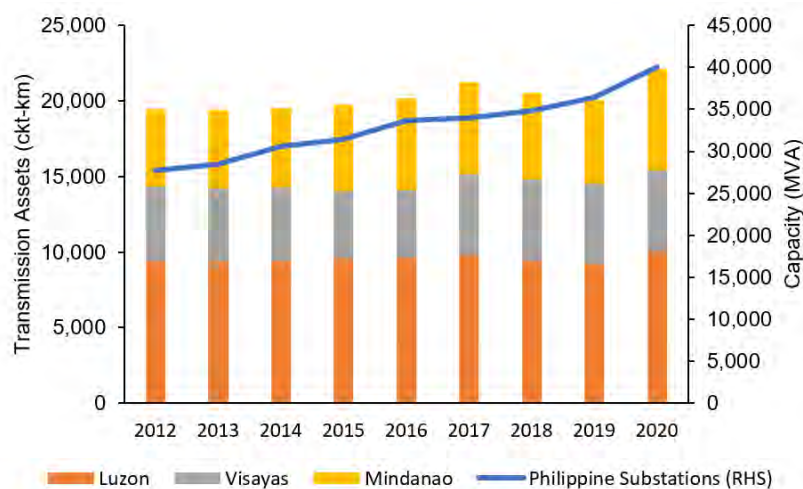
Luzon, Visayas, and Mindanao are each characterised by a single major load centre that consumes a disproportionately large proportion of their respective region's demand. These load centres are Metro Manila in Luzon, Metro Cebu in Cebu, Visayas, and Davao City in Mindanao. In terms of scale, Luzon's transmission grid is the largest in the country with 10,032 circuit kilometres (ckt-km), compared to 5,378 ckt-km in Visayas and 6,699 ckt-km in Mindanao. Across the three regions as of December 2020, the transmission system bears a total substation capacity of 40,050 megavolt amperes (MVA) and a combined transmission line length of 22,111 ckt-kms.<sup>138</sup>

Transmission and substation assets in the Philippines have grown alongside electricity demand. From 2012 to 2020, substation capacity has increased by 44.5%, while the amount of transmission lines attached to the main grids have grown by 13.4%.<sup>139</sup> Electricity consumption and peak demand by comparison grew at 40.6% and 42.0% respectively, over the same period. Due to power reliability issues in Visayas and Mindanao, substation capacity has increased by over 70% in regions during this period. Luzon substation capacity increased by 35.4%. Ckt-km of transmission line assets in the Philippines have also grown at different rates across the regions, as NGCP has focused on developing Mindanao's less mature transmission infrastructure. Between 2012 and 2020, Mindanao's transmission assets have increased by 30.2%, while Luzon and Visayas' have grown by 7.0% and 8.2% respectively.

<sup>137</sup> Department of Energy. (2018). *Philippine Energy Plan 2018-2040*. <https://www.doe.gov.ph/pep?ckattempt=1>

<sup>138</sup> Department of Energy. (2018). *Philippine Energy Plan 2018-2040*. <https://www.doe.gov.ph/pep?ckattempt=1>

<sup>139</sup> National Grid Corporation of the Philippines. (2021). *Operations Data: Transmission and Sub-Transmission Assets*.

**Figure 18: National Substation Capacity and Transmission Assets by Region**

Source: National Grid Corporation of the Philippines. (2021). *Operations Data: Transmission and Sub-Transmission Assets*.

### 2.1.1. Grid-Connected Regions – Luzon, Visayas, and Mindanao

In 2020 the three grid-connected regions collectively recorded a peak demand of 15,282 MW from 304 on-grid generating facilities with a total installed capacity of 26,286 MW and a dependable capacity of 23,410 MW.<sup>140</sup>

#### **Luzon**

In 2020, Luzon's grid had a peak demand of 11,103 MW or 72.6% of Philippine peak demand.<sup>141</sup> The bulk of Luzon's generation sources are situated in the North and South of the island with Metro Manila, located at the centre of Luzon, serving as the main load centre and accounting for (approximately 50% of total demand in Luzon).<sup>142</sup> For this reason, a key feature of the Luzon transmission grid is a Northern Transmission Corridor and a Southern Transmission Corridor, both of which typically transmit electricity supply towards the load centre.

<sup>140</sup> Dependable capacity is defined as actual reliable capacity, in contrast with a plant's nameplate capacity.

Department of Energy. (2020). *List of Existing Power Plants as of December 31, 2020* <https://www.doe.gov.ph/list-existing-power-plants?q=list-existing-power-plants>; and Department of Energy. (2021). *Philippine Power Statistic*. <https://www.doe.gov.ph/energy-statistics/philippine-power-statistics?ckattempt=2>

<sup>141</sup> Department of Energy. (2020). *2001-2020 System Peak Demand per Grid*. <https://www.doe.gov.ph/energy-statistics/philippine-power-statistics?ckattempt=2>

<sup>142</sup> National Grid Corporation of the Philippine. (2021). *Operations Data: Energy Delivery per Region* <https://www.ngcp.ph/operations#operations>; and Department of Energy. (2021). *Energy Consumption: Total Final Energy Consumption by Sector*. <https://www.doe.gov.ph/energy-consumption>

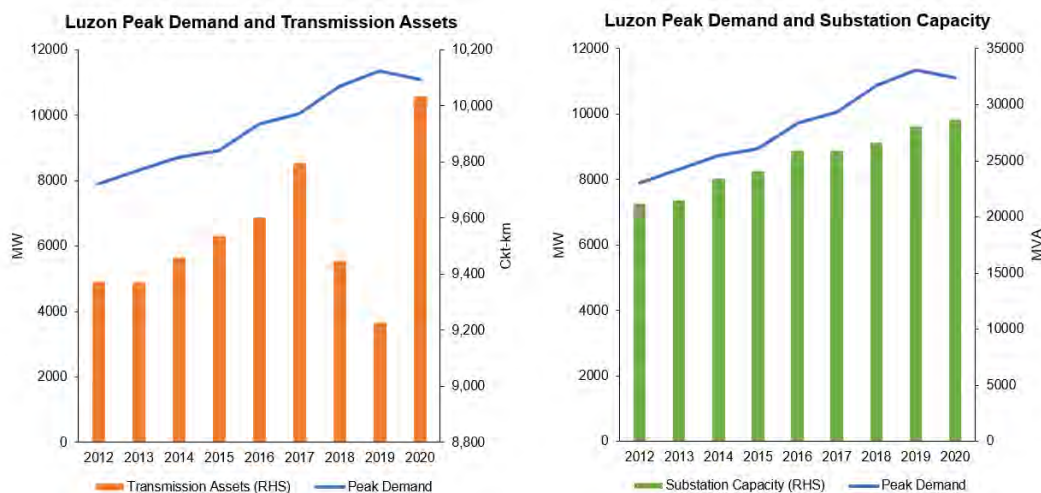
The Northern Transmission Corridor is characterised by several transmission networks that lead to Metro Manila, most notably the Bolo and Nagsaag 500 kV substations which deliver electricity to the island’s load centre from the North via the Mexico and San Jose substations. The Bolo-Nagsaag-San Jose 500 kV double circuit, which has a rating of 2,850 MVA per circuit, and is capable of transferring over 2,200 MW worth of capacity to Metro Manila. Other notable transmission lines in the Northern Corridor are:

- San Manuel-Concepcion-Mexico 230 kV;
- Labrador-Hermosa single circuit line;
- San Manuel-Concepcion-Mexico double circuit line;
- San Manuel-Pantabangan-Cabanatuan-Mexico single circuit line.

The Southern Transmission Corridor is characterized by a 500 kV pathway from the Naga substation to Tayabas, Quezon, which is also connected to San Jose, forming the linkage between the two 500 kV transmission corridors. This 500 kV backbone is currently energised at a rate of 230 kV and can facilitate the transfer of approximately 3,300 MW to Metro Manila, whilst the Batangas and Laguna area 230 kV transmission system transfers over 3,100 MW.

Luzon’s transmission assets and substation capacity have increased over the past decade. Several power lines were decommissioned in recent years to be upgraded and expanded in in 2020 and subsequent years.

**Figure 19: Luzon Peak Demand, Transmission Assets, and Substation Capacity, 2012-2020**



Source: National Grid Corporation of the Philippines. (2021). *Operations Data: System Peak Demand*; and National Grid Corporation of the Philippines. (2021). *Operations Data: Transmission and Sub-Transmission Assets*.

The Luzon grid's interconnection to the Visayas grid was the first high voltage direct current (HVDC) project in the Philippines and came into service in 1998. The HVDC Leyte-Luzon consists of an overhead line that stretches 430 ckt-km, and a 21 ckt-km submarine cable that can transfer an output of 440 MW at a voltage of 350kV. The line begins at Luzon's Naga converter station, and ends at the Ormoc converter station in Leyte, Visayas.

Figure 20: Luzon Power Grid

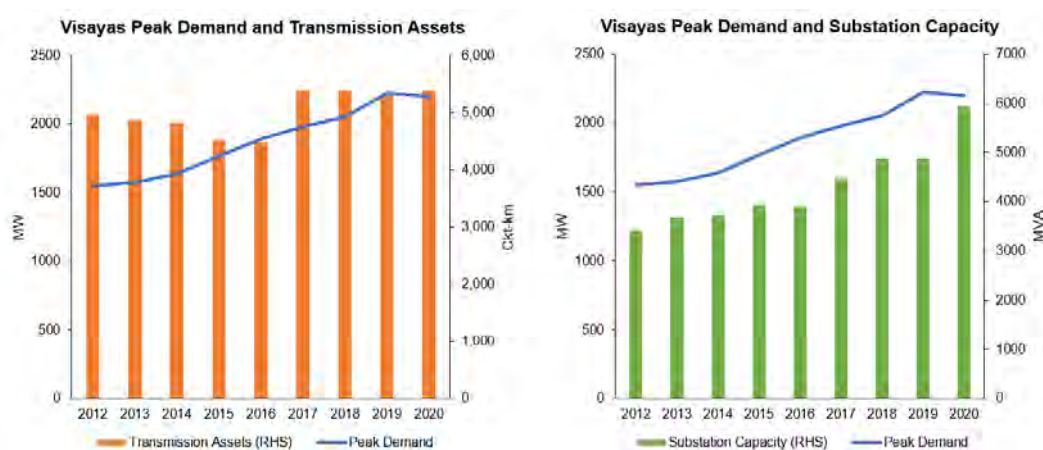


Source: National Grid Corporation of the Philippines. (2021).

## Visayas

Visayas is a cluster of five major islands consisting of Cebu, Leyte, Negros, Panay, and Bohol, each with their own interconnected sub-grid. The region is situated to the south of Luzon and north of Mindanao. With a peak demand of 2.2 GW in 2020, Visayas accounts for around 14.4% of total Philippine peak demand.<sup>143</sup> Out of the five main islands that constitute the Visayan WESM region, Cebu has the largest share of peak demand at 43%, with Leyte at 19.2%, Negros at 16.9%, Panay at 16.8% and Bohol at 4.0%.<sup>144</sup> Eastern Visayas, in Northern Leyte, is interconnected to Luzon and connects to Visayas' single 5,299 ckt-km transmission backbone. The island of Cebu is the major load centre within the Visayas grid and is connected to Leyte in the north and Negros in the south.<sup>145</sup> Visayas' substation capacity has significantly increased in the past half decade.

**Figure 21: Visayas Peak Demand, Transmission Assets, and Substation Capacity, 2012-2020**



Source: National Grid Corporation of the Philippines. (2021). *Operations Data: System Peak Demand*; and National Grid Corporation of the Philippines. (2021). *Operations Data: Transmission and Sub-Transmission Assets*.

143 Department of Energy. (2020). *2001-2020 System Peak Demand per Grid*. <https://www.doe.gov.ph/energy-statistics/philippine-power-statistics?ckattemp=2>

144 Department of Philippines. (2020). *2001-2020 Visayas Subgrid - System Peak Demand*. <https://www.doe.gov.ph/energy-statistics/philippine-power-statistics>

145 National Grid Corporation of the Philippines. (2021). *Transmission Development Plan 2021-2040 Consultation Draft*. <https://www.ngcp.ph/operations#development>

Spanning Leyte, Cebu, Negros, and Panay, the Visayas transmission backbone has been significantly developed since 2017, helping to improve grid stability and gradually alleviate, generation curtailment, grid congestion, and associated WESM pricing dislocations that have characterised the Western Visayas sub-grids of Negros and Panay in recent years. This situation had largely arisen in late 2016 following substantial build-out of solar in Negros under the FIT program, and the addition of two coal-fired plants in Panay, with the grid interconnection capacity insufficient to evacuate excess supply to the main local centre in Cebu and the broader WESM market. The Cebu-Negros-Panay backbone project which was undertaken over the last three years has expanded the capacity of the existing transmission line between Negros and Cebu, including the existing submarine cable; and built an additional submarine cable between Negros and Panay for N-1 contingencies. This has increased transfer capacity between Negros and Cebu by 800 MW, relieving congestion on the transmission corridor and helped to stabilise Visayas' historic supply and demand imbalances by improving grid capacity and stability.<sup>146</sup> Additionally, access to cheaper geothermal electricity has opened up with the new 230 kV connection from Cebu to Leyte.

**Figure 22: Visayas Power Grid**



146

National Grid Corporation of the Philippines. (2020). *NGCP interconnection projects aimed at ONE Grid Philippines*. <https://ngcp.ph/article?cid=16137>

Source: National Grid Corporation of the Philippines. (2021).

To the west of Cebu are the islands of Negros and Panay. Negros, in particular, features a very high penetration of renewable energy covering a large number of solar, biomass, and geothermal plants, with solar capacity having been built out substantially under the FIT regime and notably accounting for 59.2% of total solar dependable capacity in Visayas as of 2021.<sup>147</sup>

Connected to Negros the north and the most westward island in Visayas, Panay has several large coal power plants. Panay is less reliant on imported power from other islands, and instead often exports power to Negros through the 230 kV Negros-Panay interconnection (initially energised at 138 kV).

### **Mindanao**

In 2020, Mindanao had a peak demand of 1,978 MW.<sup>148</sup> Mindanao is not yet connected to the WESM and maintains its own transmission network operated by NGCP. The bulk of Mindanao's power generation is in the northern provinces whereas the Davao region in the south constitutes the island's main load centre and accounts for approximately half of Mindanao's total energy demand.<sup>149</sup> The capacity mix in the north of the island includes several coal-fired plants and dispersed diesel assets, as well as the 1,001 MW Agus-Pulangi hydro complex.

147 Department of Energy. (2021). *2003-2020 Installed and Dependable Capacity per Grid, by Plant Type*. <https://www.doe.gov.ph/energy-statistics/philippine-power-statistics?ckattempt=1>; and National Transmission Corporation. (2021). *2021 Feed-in Tariff Allowance Rate Application ERC Case No. 2020-020RC Expository Presentation*. [https://www.transco.ph/downloads/fitall/2021\\_FIT-All\\_Rate\\_Determination\\_Expository\\_Presentation\\_Mindanao\\_Leg-Jan\\_20\\_2021.pdf](https://www.transco.ph/downloads/fitall/2021_FIT-All_Rate_Determination_Expository_Presentation_Mindanao_Leg-Jan_20_2021.pdf)

148 Department of Energy. (2020). *2001-2020 System Peak Demand per Grid*. <https://www.doe.gov.ph/energy-statistics/philippine-power-statistics?ckattempt=2>

149 National Grid Corporation of the Philippines. (2021). *Transmission Development Plan 2021-2040 Consultation Draft*. <https://www.ngcp.ph/operations#development>

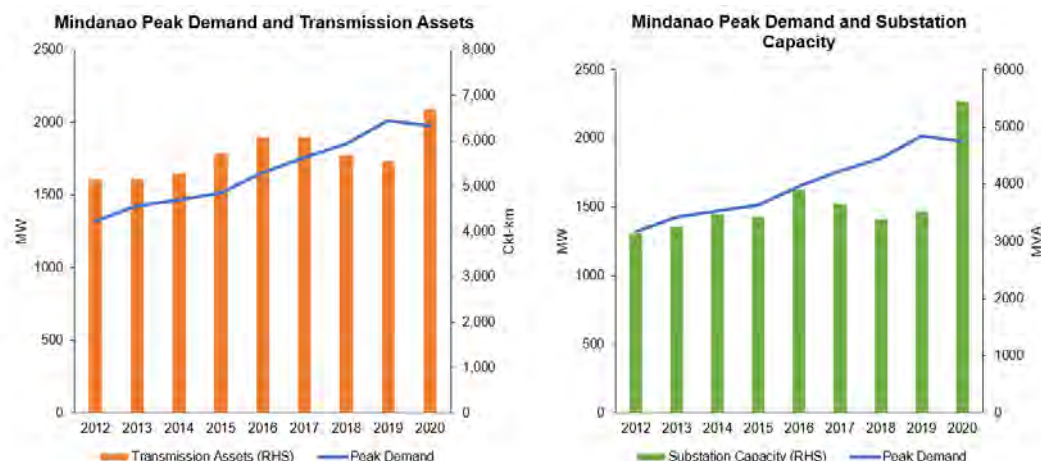
Figure 23: Mindanao Power Grid



Source: National Grid Corporation of the Philippines (2021).

The demand centres of Cagayan de Oro, Davao, and General Santos have their electricity delivered through a looped transmission line consisting of the Balo-I-Tagoloan-Maramag-Kibawe-Davao 138 kV, and the Balo-i-Villanueva-Maramag-Bunawan 230 kV corridors. The 230 kV corridor is the only one of its kind in Mindanao; the rest of the grid is dominated by 138 kV and 69 kV radial lines. The Lanao region serves as a centre for three high voltage corridors which aims to provide hydroelectric and coal-fired electricity from the Zamboanga peninsula to the rest of Mindanao.

**Figure 24: Mindanao Peak Demand, Transmission Assets, and Substation Capacity, 2012-2020**



Source: National Grid Corporation of the Philippines. (2021). *Operations Data: System Peak Demand*; and National Grid Corporation of the Philippines. (2021). *Operations Data: Transmission and Sub-Transmission Assets*.

The MVIP includes plans for North Zamboanga to be connected to Cebu using 184 ckt-km of submarine cables and 526 ckt-km of overhead wires.<sup>150</sup> The project will use HVDC cables and allow for the transfer of 450 MW at a voltage of 350 kV.

### 2.1.2. Off-Grid

The definition of an 'off-grid power system' in the Philippine context is one that is not connected to the main national grid. A typical example consists of a small island and isolated grid (SIIG) which relies on the NPC for its power supply. NPC operates 275 Small Power Utilities Group (SPUG) plants that generate power in off-grid areas across the archipelago. NPC is also responsible for off-grid transmission and substation assets that are directly connected to SPUGs. With regards to SPUG-related transmission assets, NPC oversees a total substation capacity of 185 MVA and 776 ckt-kms of transmission lines. SPUGs are a part of the DoE's development plan to electrify remote areas.<sup>151</sup> NEA administers and supervises 21 off-grid ECs whilst the DoE directly oversees one municipal power cooperative (MPC) and one local government unit-owned utility (LGUOU) (which act as local distribution utilities in SIIGs).<sup>152</sup>

<sup>150</sup> National Grid Corporation Philippines. (2019). *MVIP – Brochure*. <https://www.ngcp.ph/mvip/media/MVIP-Brochure.pdf>

<sup>151</sup> Department of Energy. (2016). *2016-2020 Missionary Electrification Development Plan*. <https://www.doe.gov.ph/electric-power/2016-2020-missionary-electrification-development-plan?ckattemp=1>

<sup>152</sup> Department of Energy. (2018). *Philippine Energy Plan 2018-2040*. <https://www.doe.gov.ph/pep?ckattemp=1>

As of 2019, there are 181 power generation facilities in off-grid territories, 139 of which are NPC assets. In larger off-grid systems it is possible for a qualified third party (QTP) or new power provider (NPP) to provide power via an off-grid generation station, but the capacity of such plants is miniscule: in 2019, the installed capacity of these plants was 526 MW with a dependable capacity of 419 MW.<sup>153</sup> Overall gross power generation across all facilities reached 1,623 GWh whilst electricity consumption was 1,278 GWh, representing 1.5% of consumption in the main grid area.<sup>154</sup>

## 2.2. ROLES AND RESPONSIBILITIES OF NGCP

NGCP is the sole concessionaire of TransCo's transmission operations and network. Following a competitive bidding process in 2007, NGCP was awarded a 25-year concession for the transmission network with an option for 25-year renewal subject to further agreement with PSALM. The owners of NGCP consist of the State Grid Corporation of China who owns 40%, and two Philippine investors, Calaca High Power Corporation and Monte Oro Grid Resources Corporation, who each own 30%.

### 2.2.1. NGCP's Role and Responsibilities

NGCP operates, maintains, and invests in the transmission system across the Philippine archipelago – both on-grid and off-grid transmission assets that are not connected to SPUGs. However, TransCo continues to retain legal ownership of the physical transmission assets.<sup>155</sup> The transmission system that NGCP operates transfers energy from injection points of generation facilities to the delivery points of distribution networks and larger end-users that are directly connected to the transmission grid.

NGCP's role includes the procurement of ancillary services that are necessary to support the transmission capacity and energy that are essential in maintaining Power Quality and the Reliability of the Grid. NGCP's functions encompass operations and maintenance of the transmission grid, system operations, scheduling, planning, and engineering.

As the transmission operator, NGCP is assigned numerous roles in ensuring the grid can properly conduct its operations:<sup>156</sup>

- **Grid operations:** Operation of the transmission grid is on real-time basis. This includes dispatching generation to meet demand and procuring and dispatching ancillary services as needed;

<sup>153</sup> Department of Energy. (2018). *Philippine Energy Plan 2018-2040*. <https://www.doe.gov.ph/pep?ckattempt=1>

<sup>154</sup> Department of Energy. (2018). *Philippine Energy Plan 2018-2040*. <https://www.doe.gov.ph/pep?ckattempt=1>

<sup>155</sup> National Grid Corporation of the Philippines (2021). *Corporate Profile: History*. <https://www.ngcp.ph/profile#history>

<sup>156</sup> National Grid Corporation of the Philippines (2021). *Operations: Power Transmission/Functions*. <https://www.ngcp.ph/operations>

- **Contracting with customers:** Contracting with customers for transmission services, metering, and billing;
- **Grid maintenance:** Conduct regular and as-needed maintenance to ensure that the grid meets and exceeds legislated minimum safety and power quality standards; and
- **Planning:** Conduct long-term grid and financial planning to build new transmission lines and capacity according to national needs.

## 2.3. KEY TECHNICAL DOCUMENTS

### 2.3.1. The Philippine Grid Code ('Grid Code')

Established in 2001, the Grid Code establishes the basic rules, requirements, procedures, and standards that govern the operation, maintenance and development of the Philippine transmission grid, and therein the high-voltage backbone transmission system and its related facilities.<sup>157</sup> Only the transmission sector is covered by the Grid Code, whereas distribution is governed by the Distribution Code.<sup>158</sup> The Grid Code identifies and designates responsibilities to three entities, namely:

- The transmission grid owner;
- The transmission system operator;
- The market operator;
- These three groups, in addition to all grid users (including generators, distributors, suppliers), are mandated to adhere to the Grid Code which is enforced by the ERC.

NGCP is responsible for the first two roles of grid owner and transmission system operator. While TransCo is technically owner of the grid, they have transferred all the rights, responsibilities and obligations of ownership (apart from disposal of assets) to NGCP under the Concession Agreement). IEMOP is the designated market operator.

The overarching objective of the Grid Code is to ensure the reliable and efficient operation of the Philippine transmission grid. It provides for the following regulations:<sup>159</sup>

<sup>157</sup> Energy Regulatory Commission (2001). *Philippine Grid Code*.  
[https://www.doe.gov.ph/sites/default/files/pdf/electric\\_power/power\\_industry\\_reforms/philippine\\_grid\\_code.pdf](https://www.doe.gov.ph/sites/default/files/pdf/electric_power/power_industry_reforms/philippine_grid_code.pdf)

<sup>158</sup> Department of Energy. (2021). *Philippine Distribution Code*. <https://www.doe.gov.ph/philippine-distribution-code#:~:text=The%20Philippine%20Distribution%20Code%20establishes,distribution%20systems%20in%20the%20Philippines.&text=The%20restructuring%20of%20the%20electric,envisioned%20in%20Republic%20Act%20No.>

<sup>159</sup> Energy Regulatory Commission (2001). *Philippine Grid Code*.  
[https://www.doe.gov.ph/sites/default/files/pdf/electric\\_power/power\\_industry\\_reforms/philippine\\_grid\\_code.pdf](https://www.doe.gov.ph/sites/default/files/pdf/electric_power/power_industry_reforms/philippine_grid_code.pdf)

- The establishment of a Grid Management Committee (GMC) that relieves the ERC from the task of monitoring day-to-day operations of the grid. The grid management committee also coordinates dispute resolution that pertains to the grid. They are composed of members nominated by generators, NGCP, TransCo, IEMOP, private and public distribution utilities, and ECs;<sup>160</sup> In May 2020, the Rules Change Committee dissolved the GMC to bolster the capacity of new Technical Committee which was established under the WESM Rules to monitor and review technical matters relating to the WESM Rules, Grid Code, and Distribution Code.<sup>161</sup>
- Performance, operation, and maintenance standards for the grid's transmission of electricity. These standards apply to NGCP, DUs, and electricity generators. Provides power quality, reliability, system loss, and safety standards;
- Outlines NGCP's operational responsibilities, criteria for operation, maintenance and operating programs, necessary reports, and measures for both frequency and voltage control; and
- Provides criteria for technical and financial standards applicable to generation companies, and DUs. The financial standards for NGCP, TransCo, and generators include financial, leverage, liquidity, financial efficiency, and profitability ratios. The Grid Code also instructs other standards relating to planning, management, operation, and maintenance of grid.

### 2.3.2. Open Access Transmission Services (OATS)

According to RCOA and EPIRA, any user seeking connection to the grid should be eligible insofar as they comply with necessary provisions. The OATS Rules are based on EPIRA, WESM Rules, and the Grid Code, and serve to establish the responsibilities of transmission customers upon the conditions of receiving transmission services from NGCP.<sup>162</sup> OATS rules also specify the requirements that NGCP has to meet in their management of, and provision of access to the high voltage backbone transmission system. OATS rules have the long-term goal of supporting an equitable and transparent electricity market.<sup>163</sup>

<sup>160</sup> Energy Regulatory Commission. (2002). *Guidelines to Govern the Formation of the Grid Management Committee*. [https://www.doe.gov.ph/sites/default/files/pdf/electric\\_power/power\\_industry\\_reforms/gmc.pdf](https://www.doe.gov.ph/sites/default/files/pdf/electric_power/power_industry_reforms/gmc.pdf)

<sup>161</sup> Philippine Electricity Market Corporation Rules Change Committee. (2020). *Minutes of Meeting: Rules Change Committee 165<sup>th</sup> Regular Meeting (No. 2020-06), 15<sup>th</sup> May 2020*.

<sup>162</sup> Marcelo, C., and Tenebrancia. (2019). *Alternative Energy & Power*. Chambers Global Practice Guides.

<sup>163</sup> Energy Regulatory Commission. (2011). *Open Access Transmission Services Rules*. [https://www.erc.gov.ph/Files/Render/media/OATS\\_Rules\\_Dec2006.pdf](https://www.erc.gov.ph/Files/Render/media/OATS_Rules_Dec2006.pdf)

The OATS rules outline transmission provider compliance to its obligations under the Grid Code market rules, rights of existing and new connections to the grid, regulatory filings, creditworthiness of transmission connectors, technical requirements for power delivery services, billing, services, and charges to transmission connectors.

In 2017, NGCP's proposed amendment to the OATS Rules.<sup>164</sup> These proposed changes pertained to:

- Equal treatment of customers in procuring connection facilities to the grid;
- Altering financing arrangement from using 'charge over asset' as credit support and instead using a letter of credit and surety bonds as new forms of additional credit for both prospective new and existing transmission customers;
- Proposing to delete modules requiring NGCP to contribute to the construction of new connection facilities. NGCP argued to instead have the option to reclassify connection assets into their own transmission assets; and
- Revising the 'Meter Only' billing scheme to have the transmission customer collaborate with the metering service provider on testing, calibration, and maintenance with higher frequency. Metering service provider costs to be unbundled on customer bills from general distribution costs.
- Adopting customer coincident peak demand as a billing determinant for the charging of the power delivery service. This is in compliance with the unbundling order of the ERC in 2001.

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Energy Regulatory Commission. (2017). *In the Matter of the Petition for the Adoption of the Proposed Amendments to the 2006 Open Access Transmission Services Rules (OATS Rules) on Behalf of the National Grid Corporation of the Philippines*. ERC Case No. 2017-010 RM.

## 2.4. TRANSMISSION DEVELOPMENT PLAN (TDP)

### 2.4.1. Objectives of the TDP

NGCP's Transmission Development Plan is guided by the PDP and the PEP.<sup>165</sup> The TDP outlines NGCP's plans to expand, develop, and monitor the grid throughout the Philippines. The Plan, which is planned in discussion with the DoE, provides tangible goals and development strategies as well as tangible methods and reinforcements necessary to incorporate future power plants in the grid. The projects included in the TDP are those that are approved by the DoE. The current TDP (2021-2040) is still in draft form and has not been formally approved by the DoE. There is currently no regular revenue approval process from the ERC and projects are being approved on a project-by-project basis. Projects, once approved by the ERC, are eligible for inclusion in the RAB during the ERC's resets of NGCP's regulated revenues (see Section 4).

In alignment with AmBisyon Natin 2040, NGCP's TDP (2021) has adopted the Transmission Resiliency Augmentation for Nationwide Smart Grid Management through Interconnected Systems, Organizations and Networks 2040 (TRANSMISYON 2040). TRANSMISYON 2040 emphasises five-year goals regarding resiliency, reliability, electrification, and network development goals for each regulatory period. Table 2 conveys TRANSMISYON 2040s five-year time span and relevant plans for development that will be addressed by each TDP.

**Table 2: TRANSMISYON 2040 Five-Year Goals**

Regulatory Period	2016-2020	2021-2025	2026-2030	2031-2035	2036-2040
	RP4	RP5	RP6	RP 7	RP 8
Title	#OneGrid2020	#Smart2025	#ReadyBy2030	#GridRefresh2035	#TransMision2040
Goal	Mindanao-Visayas Interconnection	Smart Grid	N-1 Contingency	Phase Out Inefficient Fossil Fuels	Renewable Energy
System Peak Demand	16,982 MW	22,812 MW	30,676 MW	41,414 MW	56,136 MW
Description	To enable capacity sharing through interconnection	Transition substations to smart grid	Complete grid looping and reduce system redundancy	Upgrade all transmission assets for grid resiliency	Full integration of available renewable resources

Source: National Grid Corporation of the Philippines. (2021). *Transmission Development Plan 2021-2040 Consultation Draft*.

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National Grid Corporation of the Philippines. (2021). *Transmission Development Plan 2021-2040 Consultation Draft*. <https://www.ngcp.ph/operations#development>

The TDP is published almost every year. Each of the TDP publications since 2016 has featured an extended planning horizon from the publication year through to 2040. The most recent TDP consultation draft was published in 2020 for the period 2021-2040. TDP 2021-2040 is focused on the following goals over the next 20 years:

- Implementing a grid resiliency program that includes climate change adaptation measures, strengthening existing infrastructure, developing resilience standards, establishing BBB principles, and enhancing the process for selecting both transmission and substation sites;
- Improving transmission planning for the CREZs by focusing on resource potential and terrain features. NGCP aims to expand transmission capacity to CREZs;
- Integrating emerging technologies based on published mandates by the DoE called Department Circulars. These include a variety of Energy Storage Systems, adopting Smart Grid technologies, including Static VAR Compensators, piloting aerial drones for transmission line inspections, centralising substation operations, and establish an online system for monitoring critical transmission assets;
- Establishing a development strategy for 69 kV facilities that will ameliorate issues with overloading transformers. Overloaded transformers shorten the service life of equipment, create system losses, and provide lower voltage electricity. NGCP plans to upgrade existing links between 69 kV facilities on main islands to major DUs;
- Increasing electricity access through off-grid interconnections for smaller, remote islands; and
- Continuous development of the transmission backbone across all three major regions, through reinforcement and expansion.

The transmission development plans that are provided in the TDP are incorporated into the DoE's master plan of development in the power sector: the Power Development Plan. Distinct from the PDP, the Power Development Plan is a master plan that integrates all development plans covering the power sector and therein the generation, transmission, distribution, and supply for both on-grid and off-grid power in the Philippines. Similar to the TDP, PEP, and PDP, the Power Development Plan follows AmBisyon Natin 2040. The most recent Power Development Plan is Power Development Plan 2017-2040.<sup>166</sup>

#### 2.4.2. Key Drivers of Transmission System Development

In outlining the development of the transmission system, the TDP plays a significant role in defining NGCP's growth. As mandated by EPIRA, plans for transmission system development go through several steps before they are published in the TDP.

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Department of Energy. (2017). *Power Development Plan 2017-2040*.  
[https://www.doe.gov.ph/sites/default/files/pdf/electric\\_power/pdp\\_2017-2040.pdf](https://www.doe.gov.ph/sites/default/files/pdf/electric_power/pdp_2017-2040.pdf)

Firstly, the DoE provides its input in assessing forecasts for future system peak demand and expectations for the build-out of additional generation capacity. Secondly, NGCP approaches electric power industry stakeholders and market participants for their input. Third, NGCP conducts in-house research through power system studies of the grids requirements over the next 20 years and plans potential projects. Fourth, NGCP presents the projects to DoE and other stakeholders. Finally, NGCP submits the draft plan to DoE for approval, after which a revised TDP is published, including only those projects that were approved by the DoE.<sup>167</sup> Once published, the TDP is used to inform future iterations of the PEP. The most recent published final TDP is TDP 2016-2020, however, there are also published consultation drafts of TDP 2019-2040, TDP 2020-2040 and TDP 2021-2040.

Recently, NGCP's projects have been approved by the ERC on a case-by-case basis.

Project prioritization generally adheres to the following drivers:<sup>168</sup>

- **Load growth:** NGCP focuses on ensuring the adequacy of transmission facilities by addressing overloaded substations and lines;
- **Generation entry:** NGCP focuses on being able to accommodate new generation capacity that comes online and connecting them to the grid. This typically drives transmission backbone development;
- **Power quality and technology:** The installation of new equipment can assist with system efficiencies, real-time monitoring, centralised operation of substations, and the use of automation;
- **Market operation support:** The TDP seeks to incorporate the consideration of the entire electricity market. Projects should aim to integrate grid control and unify market operation;
- **Policy Direction:** NGCP aims to align system development with national- and agency-level goals. The TDP follows DoE-issued policies as they pertain to key technical metrics, energy supply, and safety, environmental, and technical standards. Thus far, projects that have aligned with this impetus include island interconnections, off-grid incorporation, smart grids, resiliency, and CREZs; and
- **System Reliability and Security:** NGCP continuously monitors key technical standards that ensure adequate power supply. Deficiencies in N-1 contingency, network security, and defective assets need to be addressed to mitigate potential or real asset failures. All of these elements need to be addressed to maintain stable system availability.

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167 National Grid Corporation of the Philippines. (2021). *Transmission Development Plan 2021-2040 Consultation Draft*.  
<https://www.ngcp.ph/operations#development>

168 National Grid Corporation of the Philippines. (2021). *Transmission Development Plan 2021-2040 Consultation Draft*.  
<https://www.ngcp.ph/operations#development>

## 2.5. KEY TECHNICAL STANDARDS, GRID SERVICE QUALITY, AND GRID RELIABILITY

The metrics on grid performance and service quality noted below are those reported by NGCP. The ERC's first compliance review of NGCP is due to be released in 3<sup>rd</sup> Quarter of 2021 with their observations on whether NGCP has complied with EPIRA and the Grid Code in their reliability and power metrics.<sup>169</sup>

### 2.5.1. Grid Performance

NGCP operates a transmission network consisting of high voltage lines and cables capable of carrying electricity at voltage levels ranging from 69 kV up to 500 kV.<sup>170</sup>

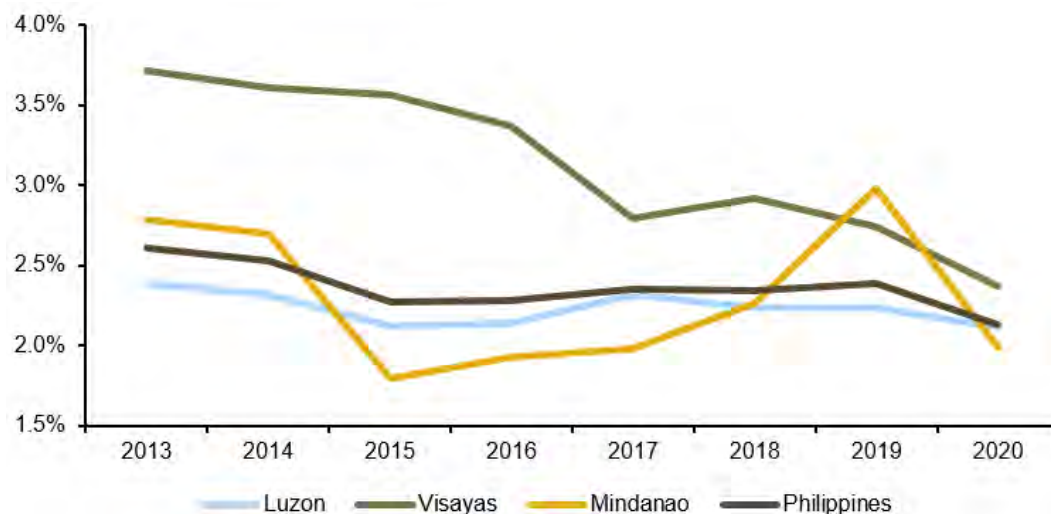
System losses throughout the three regions in the Philippines have generally declined over the past eight years as overloading problems have gradually been addressed and new connections have been built to alleviate excess capacity, thereby reducing over-voltage situations and other system inefficiencies.<sup>171</sup> Transmission system loss decreases have been most prominent in Visayas, however, they have also seen a steady decrease throughout the rest of the Philippines.

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169 Energy Regulatory Commission. (2020). *ERC Conducts Virtual Inspections for NGCP's Compliance Review*.  
<https://www.erc.gov.ph/ContentPage/72434>

170 National Grid Corporation of the Philippines. (2021). *Existing Assets*.  
<https://www.ngcp.ph/Content/uploads/document/operations/TRANSMISSION-AND-SUB-TRANSMISSION-ASSETS.pdf>

171 Energy Regulatory Commission. (2021). *In the matter of the application for the approval of the implementation of capital expenditure projects for Luzon, Visayas, and Mindanao*. ERC Case No. 2021-002 RC.

**Figure 25: Annual Average Transmission System Loss**

Source: National Grid Corporation of the Philippines. (2021). *Operations Data: System Loss*.

### 2.5.2. Reliability and Power Quality Metrics

In RP3, the ERC assigned eight performance metrics for NGCP as part of their performance incentive scheme (PIS).<sup>172</sup> Absent a regulatory reset, NGCP has continued reporting on these metrics. These are each discussed in turn below:

The **System Interruption Severity Index (SISI)** is an index that measures the ratio of unserved energy to the system's peak load. Computed by outage duration multiplied by the load involved the interruption, unserved energy is that which is not provided to end-users due to line interruptions. System peak load denotes the highest demand for energy and is measured in MW.

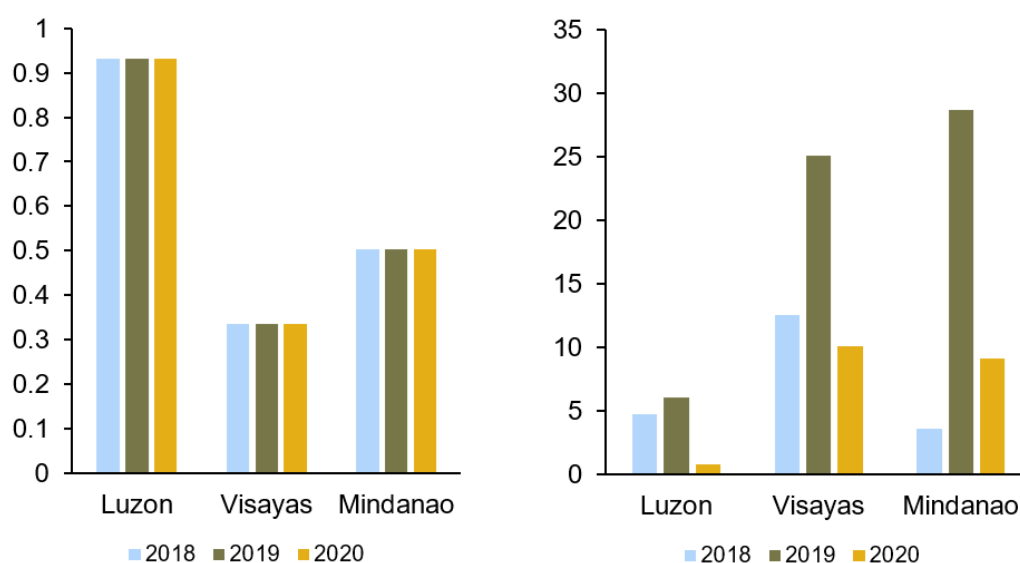
SISI performance for all three regions improved in 2020 from 2019. Heightened SISI rates in 2019 were largely due to major earthquakes, typhoons, insufficient plant availability and operating reserves, along with maintenance operations.<sup>173</sup>

<sup>172</sup> Energy Regulatory Commission. (2009). Regulatory Reset for the National Grid Corporation of the Philippines (NGCP) for 2011 to 2015, Position Paper. [https://erc.gov.ph/Files/Render/media/1%20Position%20Paper\\_NGCP.pdf](https://erc.gov.ph/Files/Render/media/1%20Position%20Paper_NGCP.pdf)

<sup>173</sup> National Grid Corporation of the Philippines. (2021). *Transmission Development Plan 2021-2040 Consultation Draft*. <https://www.ngcp.ph/operations#development>

The **Frequency of Tripping (FOT)** is measured per 100 ckt-kms. FOT measures the quantity of line outages that occur due to relay tripping. However, these measurements exclude natural disasters and other acts of nature. Although the Luzon FOT has remained unchanged, FOT for Visayas and Mindanao have very marginally declined between 2019 and 2020.<sup>174</sup>

**Figure 26: Frequency of Tripping Events (%) (LHS), and System Interruption Severity Index (RHS)**



Source: National Grid Corporation of the Philippines. (2021). *Transmission Development Plan 2021-2040 Consultation Draft*.

**System Availability (SA)** measures the proportion of time the system is considered online as a proportion of total circuit time. A circuit is considered unavailable for those periods during which it is unavailable due to fault, construction, refurbishment, or maintenance. It has also declined due to maintenance and expansion efforts by NGCP throughout the three regions.<sup>175</sup>

**Power quality** refers to the degree of steady supply voltage, frequency, and waveform, of electricity as it is transmitted. The Grid Code-mandated power quality under normal conditions are:

- Voltage variation should be between 95-105% of nominal voltage;

<sup>174</sup> National Grid Corporation of the Philippines. (2021). *Transmission Development Plan 2021-2040 Consultation Draft*. <https://www.ngcp.ph/operations#development>

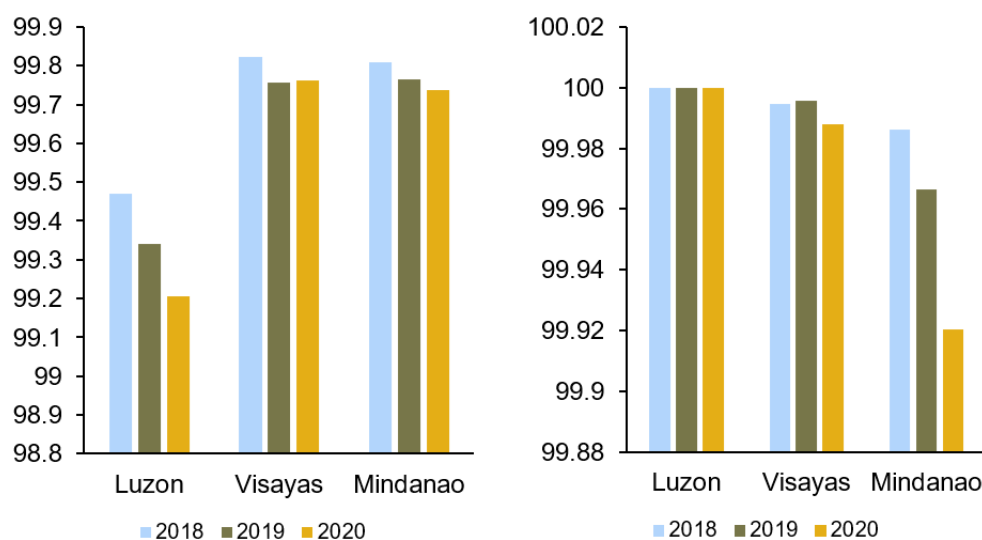
<sup>175</sup> National Grid Corporation of the Philippines. (2021). *Transmission Development Plan 2021-2040 Consultation Draft*. <https://www.ngcp.ph/operations#development>

- Frequency should be between 59.7-60.3 Hertz (Hz);
- The contingency protection criterion is 600 MW for Luzon, and 150 MW for both Visayas and Mindanao with a starting frequency of 60 Hz.<sup>176</sup>

For NGCP, system frequency is normally managed within operational limits of between 59.7 and 60.3 Hz.<sup>177</sup> Meanwhile, voltages are individually monitored at points of connection that must stay within the operational bounds of +/- 5%. Power quality is measured through indicators that include Frequency Limit Compliance, Voltage Limit Compliance, and Ancillary Service Availability.

**Frequency Limit Compliance (FLC)** refers to the percentage of voltage measurements in the regulatory period in which frequency range did not breach 60 +/- 3 Hz.<sup>178</sup> In Luzon, FLC has consistently remained at 100%. However, FLC has seen a decline in Visayas and Mindanao in recent years. Frequency limit violations in Visayas were due to the blocking and unblocking of the high-voltage direct current. In Mindanao, the decline in FLC occurred along the Zamboanga Peninsula. In Zamboanga, voltage sensitive loads were tripping, customers overdrawing, and there was a dearth of available AS.<sup>179</sup>

**Figure 27: System Availability (%) (LHS), and Frequency Limit Compliance (%) (RHS)**



<sup>176</sup> Energy Regulatory Commission. (2016) *Ancillary Services Procurement Plan: Rules, Terms, and Conditions for the Maintenance of Reliability, Adequacy, and Security of the Grid*.

<sup>177</sup> National Grid Corporation of the Philippines. (2021). *Transmission Development Plan 2021-2040 Consultation Draft*. <https://www.ngcp.ph/operations#development>

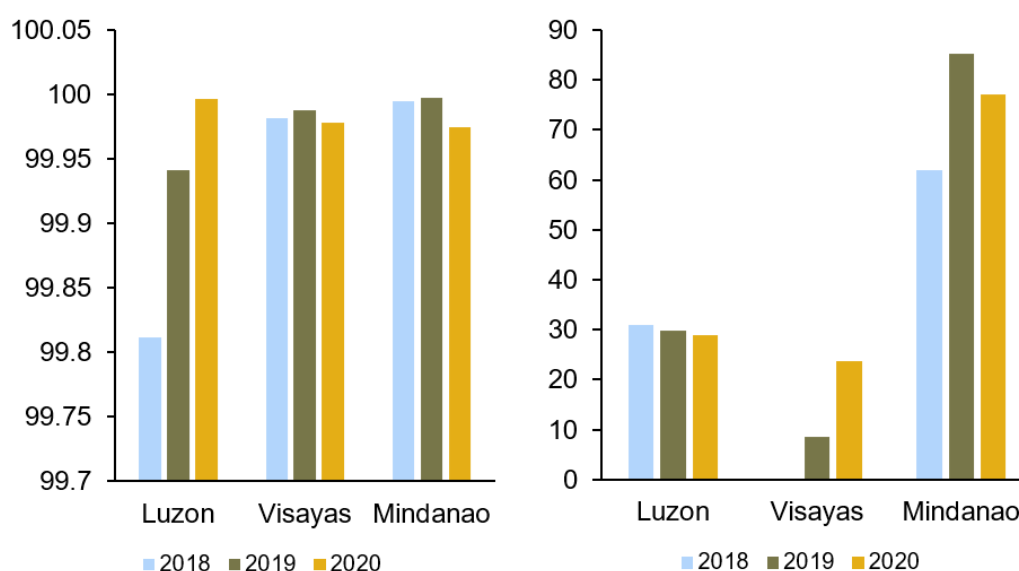
<sup>178</sup> National Grid Corporation of the Philippines. (2021). *Transmission Development Plan 2021-2040 Consultation Draft*. <https://www.ngcp.ph/operations#development>

<sup>179</sup> National Grid Corporation of the Philippines. (2021). *Transmission Development Plan 2021-2040 Consultation Draft*. <https://www.ngcp.ph/operations#development>

Source: National Grid Corporation of the Philippines. (2021). *Transmission Development Plan 2021-2040 Consultation Draft*.

**Voltage Limit Compliance (VLC)** represents the percentage of voltage measurements in which voltage variance did not exceed +/- 5%.<sup>180</sup> VLC improved substantially in Luzon over the past three years, whereas Visayas and Mindanao did not. Voltage violations in Visayas were caused by demand and generation imbalances, compounded by there being insufficient reactive power support in the Visayas which caused sudden fluctuations in Visayas. On the other hand, Mindanao's voltage violations increased due to load dropping that caused power tripping in large power plants. In Mindanao, there were also numerous instances of over-voltages due to low system demand that occurred in April 2020.

**Figure 28: Voltage Limit Compliance (%) (LHS), and Ancillary Service Availability (%) (RHS)**



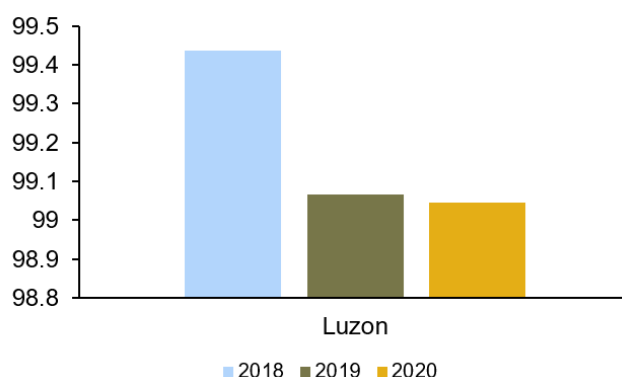
For Ancillary Service Availability, Visayas data is unavailable in the year 2018. Source: National Grid Corporation of the Philippines. (2021). *Transmission Development Plan 2021-2040 Consultation Draft*.

The **Ancillary Service Availability Indicator (ASAI)** measures how available ancillary services (AS) are to end-users at connection points in accordance with Section 3.3 of the draft Ancillary Services Procurement Plan (ASPP).<sup>181</sup> ASAI slightly declined in both Mindanao and Luzon in the past year compared to 2019. This decline in these two regions was due to a shortage of AS Providers. However, ASAI measures for Visayas have improved since 2019.<sup>182</sup>

180 National Grid Corporation of the Philippines. (2021). *Transmission Development Plan 2021-2040 Consultation Draft*.  
<https://www.ngcp.ph/operations#development>

181 Energy Regulatory Commission. (2012). *Ancillary Services Procurement Plan*.

182 National Grid Corporation of the Philippines. (2021). *Transmission Development Plan 2021-2040 Consultation Draft*.  
<https://www.ngcp.ph/operations#development>

**Figure 29: Congestion Availability Indicator for Luzon (%)**

Source: National Grid Corporation of the Philippines. (2021). *Transmission Development Plan 2021-2040 Consultation Draft*.

The **Congestion Availability Indicator (ConA)** measures the availability of lines and transformers in the Luzon grid. Availability of grid assets has decreased marginally in the past two years.

The final RP3 metric for the performance incentive scheme was a **customer satisfaction index (CSI)** that measures the extent that customers with direct access to the grid, such as generators, DUs and large customers, are satisfied with the service offered to them by NGCP.<sup>183</sup> The original intention of the ERC was that this would be conducted annually by an independent research firm engaged by the ERC, however in recent years this has not transpired. Instead, NGCP has engaged a third party on their own accord to conduct a consumer survey. The most recent available consumer survey is 2018. No consumer survey was conducted in 2020 for 2019. It is understood that a consumer survey for 2020 is intended to be conducted this year assuming the Covid situation allows.

## 2.6. PLANNED GRID DEVELOPMENTS AND EXPANSION

With Philippine population growth, economic development, increasing electrification, and urbanisation, there is a need across all three grid-connected regions to strengthen load centres, reinforce the grid, and pre-empt new power generation.<sup>184</sup>

<sup>183</sup> Energy Regulatory Commission. (2009). Regulatory Reset for the National Grid Corporation of the Philippines (NGCP) for 2011 to 2015, Position Paper. [https://erc.gov.ph/Files/Render/media/1%20Position%20Paper\\_NGCP.pdf](https://erc.gov.ph/Files/Render/media/1%20Position%20Paper_NGCP.pdf)

<sup>184</sup> National Grid Corporation of the Philippines. (2021). *Transmission Development Plan 2021-2040 Consultation Draft*. <https://www.ngcp.ph/operations#development>

In the TDP, NGCP classified expansions to the Philippine power grid into four high-level categories: transmission backbone projects, substation expansion projects, voltage improvement projects, and island interconnection projects.<sup>185</sup> We have followed this characterisation in our discussion of ERC-approved grid projects below (approval as of September 2020). Several of the projects slated for completion in 2020 or 2021 have been delayed. In June 2021, the ERC asked NGCP to explain delays in 33 of their grid development projects.<sup>186</sup> NGCP indicated that the Philippine Enhanced Community Quarantine forced NGCP to temporarily suspend construction and delayed supplier deliveries as well as contractor ability to travel.<sup>187</sup> As shown above, these delays have not materially impacted grid performance in 2020 as measured by NGCP's key performance indicators (SISI, FOT, SA, FLC, VLC and ConA). To limit delays to new generation projects in Bataan, Batangas and Quezon coming online, NGCP has put in place several temporary measures such as the use of interim connection schemes and special protection schemes to allow for these projects to be connected to the grid and dispatched, while the transmission projects are still ongoing. To date, there have been no regulatory consequences to NGCP resulting from the project delay. The projects are all being built under Provisional Authority (PA) from the ERC in the absence of a regulatory reset. There are currently no mechanisms in place for assessing project performance under PA, though the ERC have discretion to create such a mechanism ex post, or alternatively to do an efficiency adjustment at the next regulatory reset.

### 2.6.1. Transmission Backbone

To keep pace with expected future demand growth, significant incoming generation capacity projects across the three regions requires an expansion of the transmission backbone to ensure continued power quality and reliability.<sup>188</sup> NGCP has begun implementing several new transmission line projects to: create alternative routes for delivery, reduce congestion, accommodate bulk generation in new areas, improve reliability, and improve resilience.

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185 National Grid Corporation of the Philippines. (2021). *Transmission Development Plan 2021-2040 Consultation Draft*. <https://www.ngcp.ph/operations#development>

186 Energy Regulatory Commission. (2021). *ERC Directs NGCP to Explain Delays in Transmission Projects Completion*. <https://www.erc.gov.ph/ContentPage/72415>

187 National Grid Corporation Philippines. (2020). *NGCP assess impact of COVID-19 on project timelines*. <https://www.ngcp.ph/article?cid=16275>

188 National Grid Corporation of the Philippines. (2021). *Transmission Development Plan 2021-2040 Consultation Draft*. <https://www.ngcp.ph/operations#development>

In Luzon, NGCP expects there to be incoming large capacity additions of coal and natural gas power generation by 2025 in Batangas (1,220 MW), Quezon (1,850 MW), Bataan (1,336 MW), and Zambales (900 MW) – to the south, north, west, and northwest of Metro Manila respectively.<sup>189</sup> As a result, NGCP is seeking to increase capacity for energy delivery by expanding and creating new substations and implementing new 500 kV transmission facilities that will allow for export to the load centre.<sup>190</sup> NGCP is also improving supply reliability by adding additional, smaller-voltage (230/115 kV) substations to support the heavily loaded transmission lines carrying power to the main load centre.<sup>191</sup>

NGCP expects two new additions of coal capacity by 2022 in Cebu (45 MW) and Panay (135 MW), as well as RE capacity by 2023 concentrated in Negros (154 MW).<sup>192</sup> NGCP is forecasting that the existing 69 kV and 138 kV (Cebu-Negros-Panay) submarine cables serving Panay will not be sufficient to support the island's load growth, which will also be driven by the developing tourism industry. As such, NGCP is increasing the transfer capacity of the Cebu-Negros-Panay Backbone.

According to NGCP's TDP 2021-2040, the expansion and reinforcement of the Mindanao grid is growing increasingly urgent as coal-fired power plant owners propose increasing the current installed capacity at their existing generation sites, inevitably straining pre-existing infrastructure.<sup>193</sup> There are currently five coal-fired power plants on Mindanao with a total installed capacity of 1,837 MW. Sites currently range in size from 232 MW to 600 MW, but could be expanded to reach a capacity of between 600 MW to 1,200 MW at each generation site.<sup>194</sup> The result is that NGCP will need to buttress the transmission system with line extensions and looping configurations to adequately support the proposed capacity additions, in addition to completing the MVIP.

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189 National Grid Corporation of the Philippines. (2021). *Transmission Development Plan 2021-2040 Consultation Draft*. <https://www.ngcp.ph/operations#development>

190 National Grid Corporation of the Philippines. (2021). *Transmission Development Plan 2021-2040 Consultation Draft*. <https://www.ngcp.ph/operations#development>

191 National Grid Corporation of the Philippines. (2021). *Transmission Development Plan 2021-2040 Consultation Draft*. <https://www.ngcp.ph/operations#development>

192 National Grid Corporation of the Philippines. (2021). *Transmission Development Plan 2021-2040 Consultation Draft*. <https://www.ngcp.ph/operations#development>

193 National Grid Corporation of the Philippines. (2021). *Transmission Development Plan 2021-2040 Consultation Draft*. <https://www.ngcp.ph/operations#development>

194 National Grid Corporation of the Philippines. (2021). *Transmission Development Plan 2021-2040 Consultation Draft*. <https://www.ngcp.ph/operations#development>

**Table 3: NGCP Transmission Backbone Projects - 2021 to 2025**

Transmission Backbone Projects				
Voltage	Project Name	Description	Cost (Pesos)	Estimated Completion
Luzon				
500kV	Bataan-Cavite Transmission Line Feasibility Study	Hydrographic survey for future submarine cable	194.0mn	December 2020
500kV	Western Luzon Backbone Stage 1	Build corridor to accommodate Zambales generation capacity	2,631mn	June 2021
500kV	Mariveles-Hermosa Transmission Line	Accommodate incoming generation in Bataan	6,057mn	October 2021
500kV	Hermosa-San Jose Transmission Line	Corridor to accommodate generation in Bataan and Zambales	10,348mn	December 2021
230kV	Tuguegarao-Lal-Lo Transmission Line	Improve reliability of supply and form North Luzon loop	2,082mn	March 2022
230kV	Binga-San Manuel Transmission Line	Replace aged original transmission line	1,620mn	December 2023
69kV	Clark-Mabiga Transmission Line	Relieve overloading and address low voltage	549mn	December 2021
69kV	Eastern Albay Transmission Line	Create looping configuration in Albay	382mn	October 2023
69kV	La Trinidad-Calot Transmission Line	Improve reliability and increase transfer capacity	410mn	November 2025
Visayas				
230kV	Cebu-Negros-Panay Backbone Stage 3	Increase transfer capacity and N-1 contingency. A critical project for upgrading the entirety of the Visayas grid and supporting the single 138kV circuit between Negros and Panay	44,563mn	December 2022
230kV	Cebu-Lapu Lapu Transmission Line	Increase transfer capacity and N-1 contingency with the goal of alleviating Bohol's chronic power deficiency issues	1,844mn	December 2023

Transmission Backbone Projects				
Voltage	Project Name	Description	Cost (Pesos)	Estimated Completion
69kV	Sta. Rita-Quinapondan Transmission Line	Increase reliability and power quality for Eastern Samar	363.0mn	June 2021
Mindanao (until 2030)				
230kV	Sultan Kudarat-Tacurong Transmission Line	To incorporate off-grid areas to the grid. Will be initially energised at 138kV	5,888mn	October 2026
230kV	Eastern Mindanao Transmission Line Project	Expand the transmission backbones access to Agusan, Surigao and Davao de Oro	14,181mn	August 2027
230kV	Lala-Naga Min-Zamboanga Transmission Line	Expand transmission lines to incorporate incoming power generation in the Zamboanga peninsula	15,062mn	July 2029
230kV	Lala-Malabang-Sultan Kudarat Transmission Line	To incorporate off-grid areas to the grid. Will be initially energised at 138kV	N/A	December 2030
138kV	San Francisco-Tago Transmission Line	Increase reliability and power quality for Agusan and Surigao	4,199mn	December 2023
138kV	Maco-Mati Transmission Line	Support incoming generation in transferring power to urban center of Davao	2,345mn	August 2025
138kV	Polanco-Oroquieta Transmission Line	Pre-empt incoming generation in Zamboanga peninsula. Will initially be energised at 69kV	4,039mn	April 2028
69kV	Siom-Sindangan-Salug	Pre-empt incoming generation in the northern portion of the Zamboanga peninsula	N/A	December 2030
69kV	Davao-Samal Interconnection Transmission Line	Includes both overhead and submarine cable to create more direct pathway to Davao	N/A	December 2030
69kV	Zamboanga-Basilan Interconnection Transmission Line	Includes both overhead and submarine cable to create more direct pathway to Zamboanga	N/A	December 2030

Source: National Grid Corporation of the Philippines. (2021). *Transmission Development Plan 2021-2040 Consultation Draft*.

Note that several of the transmission projects listed for Mindanao stretch past 2025 through to 2030. These relate to the expansion of the MVIP, increased capacity on Mindanao and the expansion of the grid to connect the off-grid areas in Sultan Kudarat to the Mindanao grid by June 2023. The final phase of the MVIP is discussed in Section 2.6.3.

## 2.6.2. Substation Expansion

Substation capacity has been gradually increasing over the past decade in the Philippines, and NGCP has several substation expansion and upgrade plans across Luzon, Visayas, and Mindanao. The plans for further substation development that NGCP is implementing are targeted to incorporate new generating capacity as well as areas with significant energy resources that are likely to be utilized for generation. Numerous new substations intend to ease the loads of overburdened substations as well as the criticality of certain transmission lines.<sup>195</sup>

**Table 4: NGCP Substation Projects – 2021 to 2025**

Substation Projects				
Voltage	Project Name	Description	Cost (Pesos)	Estimated Completion
Luzon				
500kV	Pagbilao Substation	Accommodate new load growth in Quezon	4,016mn	March 2022
500kV	Taguig Substation	Alleviate overloading of San Jose Substation	9,529mn	December 2023
500kV/230kV	Tuy Substation	Accommodate new coal generation capacity	8,454mn	March 2023
230kV	Calamba Substation	Accommodate new load growth in Laguna sector	1,069mn	March 2021
230kV	North Luzon Substation Upgrade	Bolster load growth and provide N-1 contingency to numerous substations	5,778mn	March 2021
230kV	South Luzon Substation Upgrade	Bolster load growth and provide N-1 contingency to numerous substations	2,175mn	September 2021

<sup>195</sup>

National Grid Corporation of the Philippines. (2021). *Transmission Development Plan 2021-2040 Consultation Draft*. <https://www.ngcp.ph/operations#development>

Substation Projects				
Voltage	Project Name	Description	Cost (Pesos)	Estimated Completion
230kV	Tiwi Substation Upgrade	Improve reliability of transmission	1,467mn	December 2021
230kV	Antipolo Substation	Accommodate Metro Manila demand increase	1,153mn	April 2022
230kV	Navotas Substation	Accommodate Metro Manila demand increase	3,486mn	December 2023
230kV	Pasay Substation	Accommodate new load growth	12,871mn	December 2025
Visayas				
138kV	New Naga Substation Upgrade	Assist load growth	313mn	December 2021
69kV	Tagbilaran Substation	Accommodate new hydropower capacity and to bolster reliability	534mn	September 2021
Mindanao				
138kV	Mindanao Substation Upgrading Project	Enhance substation capacity to assist N-1 contingency across Mindanao	5,016mn	June 2022
138kV/69kV	Mindanao Substation Rehabilitation Project	Upgrade obsolete and aging equipment in Mindanao substations	3,418mn	June 2022

Source: National Grid Corporation of the Philippines. (2021). *Transmission Development Plan 2021-2040 Consultation Draft*.

### 2.6.3. Island Interconnection

When complete, the MVIP will feature 184 ckt-km of submarine cables and 526 ckt-km of overhead wires using high-voltage direct current cables which will connect Mindanao's 2.2 GW of installed capacity to the rest of the Philippines. Construction of the MVIP interconnection between Mindanao and Visayas first began in 2018, with a 2020 completion date as the original target. Current estimates are that the project, which is in its final phase, will be completed in June 2022. The last remaining component of the MVIP is the Kauswagan-Lala 230 kV transmission line project (previously known as the Balo-i-Kauswagan-Aurora 230 kV project). This final line will create the Lala 230 kV, and Aurora 138 kV substations, as well as two transmission lines: Kauswagan-Lala 230 kV, and Lala-Aurora 138 kV. The project's final component cost is PhP 5,040 million. In February 2021, the underwater fibre-optic cable between Cebu and Zamboanga del Norte was reported to have been damaged by an anchor which delayed the project completion date by six months, from December 2021 to June 2021.<sup>196</sup> Integration into the WESM is intended to be piloted in 2021.

### 2.6.4. Voltage Improvement

NGCP's voltage improvement efforts aim to bolster power reliability, and quality. Voltage reliability entails that the ERC-regulated margin limits, and thereby power quality, are maintained at appropriate levels. NGCP is conducting a few voltage projects across the three regions to refine the quality of supplied power.

**Table 5: NGCP Voltage Improvement Projects – 2021 to 2025**

Voltage Improvement Projects				
Voltage	Project Name	Description	Cost (Pesos)	Estimated Completion
Luzon				
230kV/115kV	Luzon Power Circuit Breaker Replacement	Replacing circuit breakers in numerous substations to improve reliability	30.0mn	March 2021
69kV	Luzon Voltage Improvement Project 3	Address undervoltage and overvoltage issues at peak load	3,383.0mn	March 2021
69kV	Luzon Voltage Improvement Project 4	Address undervoltage and overvoltage issues at peak load	3,122.0mn	December 2021

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PhilStar (2021). *NGCP's P52-billion Vis-Min Interconnection Faces Delay*.

<https://www.philstar.com/business/2021/02/20/2078971/ngcps-p52-billion-vis-min-interconnection-faces-delay>

Visayas				
138kV/69kV	Visayas Voltage Improvement Project	Address low voltage issues due to long 69kV transmission lines	805.0mn	December 2022
Mindanao				
138kV	Agus 2 Switchyard Upgrading Project	Replace aging and defective equipment	741.0mn	February 2022

Source: National Grid Corporation of the Philippines. (2021). *Transmission Development Plan 2021-2040 Consultation Draft*.

## 2.7. FUTURE OPPORTUNITIES AND CHALLENGES

### 2.7.1. Variable Renewable Energy Penetration in the Philippine Transmission Grid

Within the Philippines, there is an ongoing drive to transition the generation sector away from fossil fuel-fired power plants and towards renewable energy. To achieve greater penetration of renewables in the WESM and the national capacity mix, the DoE has included as part of the PEP (2018-2040) the formation of 25 competitive renewable energy zones (CREZ) which host the most promising RE resources in the Philippines. The impetus behind the policy – originally promulgated via a DoE circular – is to encourage the development of transmission infrastructure to connect isolated renewable energy supplies to the grid. In this sense, the CREZ policy effectively “reduces investment barriers by directing transmission development to the Philippines’ most promising RE opportunities.”<sup>197</sup> The potential greenfield wind and solar capacity across the 25 CREZs is estimated at 152 GW.<sup>198</sup>

The TDP provides an outline of their CREZ Transmission Planning Process for renewable energy expansion, within which, NGCP notes, CREZs are constrained by a lack of existing transmission infrastructure. NGCP aims to finish their transmission plan for CREZs in 2021, although there are already two potential projects proposed by NGCP to increase transfer capacity from CREZs to the grid: the Bolo-Balaoan 500kV transmission line and Balaoan-Laoag 500kV transmission line in Luzon.<sup>199</sup>

<sup>197</sup> U.S. Department of Energy (DOE)/NREL/ALLIANCE. (2020). *Ready for Renewables: Grid Planning and Competitive Renewable Energy Zones (CREZ) in the Philippines*. <https://www.nrel.gov/docs/fy20osti/76235.pdf>

<sup>198</sup> U.S. Department of Energy (DOE)/NREL/ALLIANCE. (2020). *Ready for Renewables: Grid Planning and Competitive Renewable Energy Zones (CREZ) in the Philippines*. <https://www.nrel.gov/docs/fy20osti/76235.pdf>

<sup>199</sup> National Grid Corporation of the Philippines. (2021). *Transmission Development Plan 2021-2040 Consultation Draft*. <https://www.ngcp.ph/operations#development>

Although the potential capacity for hydropower is relatively large, the realisable potential is much lower. Creating new stored hydro facilities has major environmental, societal, and cost implications and are less common than they once were. In the TDP, NGCP has only 300 MW of committed hydro for the CREZ.<sup>200</sup>

**Table 6: Estimated CREZ Opportunity Capacity (MW)**

	Luzon	Visayas	Mindanao
Solar PV	35,031	11,876	11,203
Wind	54,115	25,429	14,443
Geothermal	285	40	40
Hydropower	270,603	1,917	382,514
Biomass	210	71	93

Source: National Renewable Energy Laboratory. (2020). Ready for Renewables: Grid Planning and Competitive Renewable Energy Zones (CREZ) in the Philippines.

## 2.7.2. Climate Change Adaptation and Grid Resiliency

Both NGCP and the DoE have focused on the need to adapt existing energy facilities to the evolving challenges posed by climate change in their planning documents (TDP and PEP, respectively). The Philippines is particularly vulnerable to the fallout from climate change due to its geographic position and status as an archipelago with among the largest coastlines in the world.<sup>201</sup> Recognising the future threats of climate change to the energy sector, the DoE drafted and implemented Department Circular (DC) 2018-01-001, “Adoption of Energy Resiliency in the Planning and Programming of the Energy Sector to Mitigate the Potential Impacts of Disasters.” The DC established a task force constituted by relevant agencies and entities, including NGCP, to draft a national Resiliency Compliance Plan (RCP). One of the mandates of the RCP is “strengthening infrastructure.” This in turn led NGCP to institute its own plans and programs on resiliency in the TDP, which include a plethora of retroactive measures (such as upgrading aged transmission cables and asset replacement) and proactive measures (constructing new transmission lines in a looping configuration and installing underground cables) for safeguarding against climate change. NGCP has earmarked PhP 9.8 billion capital expenditure on resiliency operations from now until 2040, out of a total anticipated capital expenditure of PhP 69.0 billion for the period.<sup>202</sup>

<sup>200</sup> National Grid Corporation of the Philippines. (2021). *Transmission Development Plan 2021-2040 Consultation Draft*. <https://www.ngcp.ph/operations#development>

<sup>201</sup> National Grid Corporation of the Philippines. (2021). *Transmission Development Plan 2021-2040 Consultation Draft*. <https://www.ngcp.ph/operations#development>

<sup>202</sup> National Grid Corporation of the Philippines. (2021). *Transmission Development Plan 2021-2040 Consultation Draft*. <https://www.ngcp.ph/operations#development>

### 2.7.3. Emerging Technologies: Battery Energy Storage Systems

As of August 2020, there are 11.04 MW of installed battery energy storage systems (BESS) capacity in the Philippines of which 10.0 MW are grid-connected in Luzon with the remainder being off-grid capacity in Palawan.<sup>203</sup> Despite the lack of installed BESS capacity at present, the emergent technology is attracting significant commercial interest from local generation companies and market participants whom are seeking to develop larger portfolios of storage in the coming years. BESS is an emergent technology which allows for the provision of ancillary services, transmission congestion relief, and renewables firming, all of which are especially valuable against the backdrop of increasing variable renewable energy penetration in the transmission grid. The non-dispatchable nature of wind and solar power (which will increase in capacity with the future CREZ developments) means that additional resources must be available to provide the necessary ancillary services to spontaneous peaks and troughs in demand. BESS can be deployed quickly and flexibly in locations with specific needs for local or general ancillary services (frequency regulation) support. NGCP has compiled a recommended list of BESS sites and capacities, based the value of BESS as a provider of fast response primary reserve (AS), also known as regulating reserves<sup>204</sup> To date, NGCP has recommended eleven BESS sites on Luzon, totalling 290 MW capacity, five on Visayas totalling 70 MW capacity, and five on Mindanao totalling 90 MW capacity.

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<sup>203</sup> Philippines Department of Energy. (2021). *List of Existing Power Plants (Off-Grid) as of December 2020*.  
[https://www.doe.gov.ph/sites/default/files/pdf/electric\\_power/electric\\_power\\_plants\\_lvm\\_offgrid\\_december\\_2020.pdf](https://www.doe.gov.ph/sites/default/files/pdf/electric_power/electric_power_plants_lvm_offgrid_december_2020.pdf)

<sup>204</sup> National Grid Corporation of the Philippines. (2021). *Transmission Development Plan 2021-2040 Consultation Draft*.  
<https://www.ngcp.ph/operations#development>

### 3. THE CONCESSION

#### 3.1. OVERVIEW

A concession agreement was signed by PSALM, TRANSCO and NGCP in February 2008. NGCP obtained a franchise from Congress to operate and maintain the transmission system in December 2008.<sup>205</sup> The concession term formally began on 15 January 2009.

The concession grants NGCP exclusive rights and responsibilities to construct, install, finance, manage, improve, expand, operate, maintain, rehabilitate, repair, refurbish, and replace TRANSCO's transmission assets.

NGCP is required or permitted, in particular, to:

- Provide transmission services and enter into connection agreements with transmission customers;
- To act as System Operator for the Philippine's transmission network;
- Procure such ancillary services as are necessary to support the safe and reliable operation of the transmission assets;
- Construct, install, finance, improve, expand, operate, maintain, rehabilitate, repair, refurbish and replacement transmission assets as needed;
- Prepare a Transmission Development Plan (TDP) and implement such projects in the TDP as may be authorised by the Energy Regulatory Commission (ERC);
- Bill and collect charges from transmission customers;
- Collect the Universal Charge payable by end users and self-generating entities not connected to a distribution utility and remit the same to PSALM;
- Collect the Feed-in-Tariff Allowance charges and remit the same to TransCo; and
- Carry on any related business.

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Philippine Government. (2008). *Republic Act No. 9511. An Act Granting the National Grid Corporation of the Philippines a Franchise to Engage in the Business of Conveying or Transmitting Electricity through High Voltage Backbone System of Interconnected Transmission Lines, Substations and Related Facilities, and for Other Purposes.*  
[https://lawphil.net/statutes/repacts/ra2008/ra\\_9511\\_2008.html](https://lawphil.net/statutes/repacts/ra2008/ra_9511_2008.html)

The concession is for an initial term of 25 years. The concession agreement requires PSALM and TRANSCO to meet within 30 days of the twentieth anniversary of the anniversary of the concession (15 January 2029) to review NGCP's performance and to consider whether and on what terms the concession period should be extended. The maximum possible extension period is 25 years (to 14 January 2059).<sup>206</sup>

### **3.2. CONCESSION PAYMENTS**

The price that NGCP agreed to pay to acquire the concession was US\$3.95 billion. Twenty-five percent of this amount (US\$987.5m) was paid by NGCP upfront. The remaining 75% was/is payable semi-annually over a 20-year payment profile.

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A copy of the concession agreement may be found at:  
<https://www.transco.ph/downloads/CONCESSIONAGREEMENTOCR.pdf>

## 4. REGULATION

### 4.1. OVERVIEW OF THE REGULATORY FRAMEWORK

NGCP is regulated by the ERC under the EPIRA law.

Section 43(f) of the Act requires the ERC to establish and enforce a methodology for setting transmission charges (also known as ‘wheeling rates’). The Act specifies that:

- The rates set by the ERC must allow the recovery of just and reasonable costs and a reasonable return on rate base (RORB) to enable NGCP to operate viably;
- The ERC may adopt alternative forms of internationally accepted rate-setting methodology as it may deem appropriate;
- The rate-setting methodology must ensure a reasonable price of electricity; and
- The rates prescribed must be non-discriminatory.

The Act also requires the ERC to establish minimum performance standards, including in relation to system losses, interruption frequency rates and collection efficiency.

### 4.2. PERFORMANCE-BASED REGULATION

The ERC has to date applied a form of performance-based regulation (PBR), in which the regulator announces publicly ahead of time that NGCP will have fixed annual entitlements to collect specified amounts of revenue from transmission customers based on the ERC’s forecasts of NGCP’s costs. Under PBR, there is intended to be a shared understanding that NGCP’s actual costs may turn out to higher or lower than the ERC’s fixed forecasts, in which case NGCP either bears its additional expenditures without recourse to customers or keeps the efficiency gains from the difference between actual and forecast expenses. The expectation is that this scope to under- or out-perform provides NGCP with a strong incentive to minimise its costs and improve its efficiency over time and that the ERC will be able to capture the benefit of lower costs for customers at each periodic ‘reset’ of NGCP’s fixed revenue entitlements. Although this has been the historical precedent for NGCP, the ERC is permitted to switch to an alternative form of control – for example an average price cap in which the company takes volume risk more directly – at future resets.

The ERC's current methodology for regulating transmission charges is set out in a document entitled "Rules for Setting Transmission Wheeling Rates for 2003 to around 2027."<sup>207</sup> The Rules specify that the ERC will regulate rates using defined Regulatory Periods. The first regulatory period ran until 31 December 2005. The second regulatory period was 1 January 2006 to 31 December 2010 and the third Regulatory Period was 1 January 2011 to December 2015. The Rules state that each subsequent Regulatory Period must be five years in duration.

The Rules then specify in detail:

- The regulatory process and timelines that both the ERC and NGCP must adhere to in order for the methodology established by the Rules to be administered and applied in a timely manner;
- The framework and principles that the ERC will adopt when setting the maximum transmission wheeling rates that may be charged by NGCP;
- The annual rate verification and adjustment process which the ERC must undertake; and
- The performance indicators, performance targets and reporting arrangements with which NGCP must comply.

### 4.3. RATE-SETTING PROCESS / TIMETABLE

The ERC's Rules state that the steps to be followed ahead of a determination by the ERC of NGCP's maximum charges for a new Regulatory Period should be as follows:

- Not less than 21 months before the end of each Regulatory Period – the ERC must publish a regulatory reset issues paper and call for written submissions on the matters raised therein;
- At least 17 months prior to the end of the Regulatory Period – the ERC must instruct NGCP to retain an independent expert or experts to advise on matters relating to costings and expenditure forecasts;
- Not less than nine months before the end of the Regulatory Period – the ERC must publish a draft determination of NGCP's revenue entitlements for the forthcoming five-year period and invite submissions from interested parties;
- Between seven and five months before the end of the Regulatory Period – the ERC must hold public hearings; and
- Not less than three months before the end of the Regulatory Period – having considered all the representations made to it, the ERC must publish a final determination.

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Energy Regulatory Commission. (2009). *Rules for Setting Transmission Wheeling Rates for 2003 to around 2027*.  
[https://www.erc.gov.ph/Files/Render/media/2%20RTWR\\_09%2016%202009\\_Draft%20Final\\_.pdf](https://www.erc.gov.ph/Files/Render/media/2%20RTWR_09%2016%202009_Draft%20Final_.pdf)

#### 4.4. RATE-SETTING: THIRD REGULATORY PERIOD (2011-15)

During the third regulatory period, 2011-15, the ERC elected to regulate NGCP's rates via a revenue cap as they had in the previous regulatory periods. Under this arrangement, NGCP was entitled to collect specified amounts of revenue set by the ERC during each calendar year.

The ERC calculated NGCP's annual revenue entitlements on a forward-looking basis as the sum of the following projected financial building blocks:

- Operating and maintenance expenditure (Opex);
- Taxes other than corporation tax (Tax<sub>m</sub>);
- Regulatory depreciation (RegDepn);
- Return on capital;
- Corporation tax (Tax<sub>p</sub>).

The value of the return on capital building block was calculated in accordance with the value of NGCP's Regulatory Asset Base (RAB) plus an allowance for working capital (WC) multiplied by the ERC's estimate of NGCP's weighted average cost of capital (WACC).

NGCP's maximum annual revenue entitlement (ARR) for each year of the third regulatory period was therefore:

$$ARR_t = Opex_t + Tax_{m,t} + RegDepn_t + [(RAB_t + WC_t) \times WACC] + Tax_{p,t}$$

The intent behind this framework was that an efficient and prudent operator should have an expectation that it will be able to recover, reasonably, its incurred costs in full. The recovery of efficient costs occurs in the corresponding year in the case of opex, financing costs and tax, and over the life of built assets in the case of capital costs.

In each case, the recovery of costs in full was subject to the ERC's right to challenge NGCP's expenditure and tax projections, NGCP's asset valuation and NGCP's estimate of its cost of capital. The ERC stated in its determination document that its objective in regulating NGCP's transmission charges is to ensure that "service is provided with the quality demanded by customers at a price that is comparable with that a provider would be able to charge for a similar service in a competitive environment."<sup>208</sup> To this end, the ERC devoted a sizeable amount of time over a two-year period to understanding, reviewing and – where necessary – adjusting NGCP's projected costs and revenues.

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Energy Regulatory Commission. (2009). Regulatory Reset for the National Grid Corporation of the Philippines (NGCP) for 2011 to 2015, Position Paper. [https://erc.gov.ph/Files/Render/media/1%20Position%20Paper\\_NGCP.pdf](https://erc.gov.ph/Files/Render/media/1%20Position%20Paper_NGCP.pdf)

This experience illustrates that under business as usual, the review process that the ERC conducts at each regulatory reset is the single most important determinant of the profits that NGCP is able to earn and, hence, the value that it is able to extract out of the concession.

The Rules give the ERC a certain amount of discretion as to how it applies its challenge, meaning that the precise approach that the ERC takes when calculating each building block may vary from one reset to the next. The ERC's approach to calculating each term in the formula in its determination for the third regulatory period is summarised briefly in the table below.

**Table 7: ERC Approach to Calculating NGCP's ARR for the Third Regulatory Period**

Building block	Methodology
Opex	The ERC engaged an expert consultant to conduct a full review NGCP's five-year opex projections. The ERC set the values of the Opex term in the ARR formula in line with its consultant's recommendations.
RAB	<p>NGCP's RAB was calculated using the formula:</p> $RAB_t = RAB_{0,t} + CAPEX_t - RegDepn_t - Disposals_t$ <p>where</p> <p>RAB<sub>0,t</sub> was the rolled forward asset value for year t-1</p> <p>Capex<sub>t</sub> was the ERC's forecast of capital expenditure in year t</p> <p>Disposals<sub>t</sub> was the ERC's forecast of receipts from disposals of assets in year t.</p> <p>The ERC engaged an expert consultant to value the transmission asset base as at 31 December 2008 on an optimised depreciated replacement cost basis. This valuation was used as the value for RAB2008.</p> <p>The ERC also engaged an expert consultant to conduct a full review of NGCP's planned capex. The ERC set the values of the Capex terms in the RAB formula in line with its consultant's recommendations.</p>
Land Capex	The ERC's Capex term excluded all expenditures on land related costs. These expenditures were identified as a separate line item.
RegDepn	Depreciation was calculated on a straight-line basis as the depreciated optimised replacement cost of NGCP's assets divided by remaining asset life.
WC	The ERC set NGCP's working capital allowance as a percentage of the ERC's forecast of annual Opex less an allowance for bad debts.
WACC	<p>The WACC was set in line with the ERC's estimate of the weighted average of NGCP's equity finance and debt finance costs.</p> <p>NGCP's cost of equity was calculated in accordance with the capital asset pricing model (CAPM) framework. The ERC's estimate of the cost of equity was 20.26%.</p> <p>NGCP's cost of debt was calculated as a premium over Philippines government bond yields. The ERC's estimate of the cost of debt was 12.27%.</p> <p>The weights for the cost of equity and the cost of debt were 33% and 67%.</p> <p>The resulting WACC was 15.04% on a nominal, vanilla basis.</p>
Taxp	Under the terms of its concession, NGCP does not pay income tax (NB: NGCP instead pays a franchise tax of 3% of its revenues). The ERC therefore set the value of Taxp to zero.
Taxm	The ERC made forecasts of NGCP's expected property tax and VAT payments.

Building block	Methodology
	(The 3% national franchise tax was not included in the ARR but is recovered separately through a surcharge on customers' invoices.)
Net efficiency adjustment	<p>The ERC's determination provided for a capex efficiency adjustment and an opex efficiency adjustment via which some of the financial benefit/disbenefit arising from NGCP's under-/over-spending against its allowances in the second regulatory period was carried over into the third regulatory period.</p> <p>The net value of this adjustment was negative. This was attributable principally to NGCP over-spending in 2010.</p>

The ERC's calculation of NGCP's ARR values for the third regulatory period is reproduced below.<sup>209</sup>

**Table 8: ERC Determination of ARR for the Third Regulatory Period (PhP million)**

	2011	2012	2013	2014	2015
Opex	5,603	6,336	6,676	7,753	7,575
Taxm	1,095	973	897	828	675
RegDepn	6,572	7,033	7,421	7,125	7,090
Return on capital	27,428	28,638	29,561	29,997	29,932
Land capex	67	196	301	390	482
Net efficiency adjustment	(292)	(1,526)	(1,489)	(1,699)	(1,629)
ARR	40,473	41,650	43,367	44,393	44,127

The ERC's rules provide for annual revenue requirements to be smoothed across each five-year period so as to avoid unnecessary year-to-year volatility in customer charges. The smoothing is implemented on a net present value neutral basis such that NGCP's maximum allowed revenue (MAR) increases each year in line with a measure of inflation minus an X% efficiency factor.

The MAR calculation also includes a correction factor,  $K_t$ , which allows for inadvertent under- or over-recovery against NGCP's maximum revenue entitlement to be corrected in a subsequent charging year.

The MAR formula is:

$$MAR_t = [MAR_{t-1} \times \{1 + CWI_t - X\}] - K_t$$

<sup>209</sup>

Energy Regulatory Commission. (2010). *Regulatory Reset for the National Grid Corporation of the Philippines (NGCP) for 2011 to 2015, Final Determination*. <https://www.erc.gov.ph/Files/Render/issuance/3232>

Where  $X$  is the efficiency factor and  $CWI_t$  is the "Change in Weighted Index", a measure of inflation. The  $CWI_t$  is a weighted combination of the Consumer Price Index (CPI) and an exchange rate index.

The ERC's calculation of NGCP's MAR values for the third regulatory period is reproduced below.

**Table 9: ERC Determination of MAR for the Third Regulatory Period (PhP million)**

	2011	2012	2013	2014	2015
ARR	40,473	41,650	43,367	44,393	44,127
Second regulatory period recoveries	4,175	2,403	2,503	2,562	2,547
Unsmoothed MAR	44,648	44,053	45,869	46,955	46,673
Smoothed MAR	44,079	44,873	45,680	46,457	47,247

#### 4.5. ANNUAL RATE VERIFICATION AND ADJUSTMENT PROCESS

NGCP is responsible for fixing the specific tariffs that it uses to charge its customers. The chosen rates must be set at a level that is compatible with NGCP's regulated revenue cap.

NGCP is required to submit its proposed tariffs to the ERC in October of each calendar year together with a statement that demonstrates the compliance of those rates with the ERC's revenue cap and Rules. The ERC then has until 11 December either to approve NGCP's rates or direct NGCP to make amendments to its prices prior to the start of the new charging year. As noted above, the tariffs in each charging year will reflect the sum of NGCP's maximum allowed revenue for that year plus/minus any under-/over-recovery of NGCP's revenue cap from preceding charging years.

#### 4.6. PERFORMANCE STANDARDS AND INCENTIVES

The Rules specify that the ERC must measure NGCP's performance through at least the following metrics:

- Number of interruption events;
- A sustained average interruption frequency index;
- A momentary average interruption frequency index;
- A sustained average interruption duration index;
- A system interruption severity index;

- Frequency of tripping;
- Average forced outage duration;
- Accumulated time error;
- Number of frequency limit violations;
- Number of voltage limit violations; and
- System losses.

As part of its oversight of NGCP's service, the ERC has hitherto implemented a financial incentive scheme under which NGCP is able to earn revenue rewards or may have to pay revenue penalties based on its annual performance against a specified basket of performance benchmarks. Since the start of the third regulatory period, the maximum reward or penalty applied by the ERC has been 3% of NGCP's revenue cap. NGCP continues to monitor those metrics that formed part of the RP3 performance incentive scheme. These are discussed in more detail in Section 2.5.2 of the report.

The detailed design of the ERC's current performance incentive scheme is set out in the ERC's 2011 determination document.<sup>210</sup>

#### 4.7. REGULATION SINCE 2016

The third regulatory period ended on 31 December 2015. At the start of 2014, NGCP initiated the process for a regulatory reset for the fourth regulatory period, 2016-20. However, the ERC did not conclude a full review of NGCP's five-year revenue entitlement.

Instead, in the absence of a new determination from the ERC, NGCP filed in October 2015 for an interim maximum annual revenue (iMAR) for the regulatory year 2016. In an Order issued in December 2016,<sup>211</sup> ERC authorised NGCP to implement an iMAR<sub>2016</sub> of PhP 43,789 million. Although lower than the MAR<sub>2015</sub>, this was within 3.5% of the PhP 45,287 million requested by NGCP. The ERC's Order also authorised NGCP to bill the approved iMAR<sub>2016</sub> to transmission customers until the issuance of the ERC's final determination for the fourth regulatory period.

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<sup>210</sup> Energy Regulatory Commission. (2010). *Regulatory Reset for the National Grid Corporation of the Philippines (NGCP) for 2011 to 2015, Final Determination*. <https://www.erc.gov.ph/Files/Render/issuance/3232>

<sup>211</sup> Energy Regulatory Commission. (2015). *In the Matter of the Application for the Approval of an Interim Maximum Annual Revenue for Calendar Year 2016 (iMAR 2016) and an Interim Net Performance Incentive for Calendar Year 2015 (iNPL 2015), with Prayer for Provisional Authority*. <http://www.erc.gov.ph/Files/Render/issuance/17895>

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In light of the ERC's failure to conduct full review of the fourth regulatory period or to commence the review for the fifth regulatory period, 2021-25 NGCP filed in October 2019 for an iMAR for the regulatory year 2020. In an Order issued in February 2020,<sup>212</sup> the ERC granted NGCP interim relief through the provisional approval of an IMAR2020 of PhP 47,052 million.

The revenue entitlements in both of these Orders are expressly interim values and are "subject to adjustment during the next rate-setting process for NGCP."<sup>213</sup>

Where normally capital investments would be proposed by NGCP and approved by the ERC during a regulatory reset process, NGCP has sought case-by-case approvals from the ERC for the implementation of its capex for the period 2016 to 2025. The ERC has to date issued 14 approvals and provisional approvals covering PhP 102 billion of capex. The original capex filings for these approved projects covered PhP 202 billion. A further 16 applications are pending – in part or in full – covering PhP 448 billion of capex. NGCP has also filed 13 force majeure event claims to for the fourth regulatory period amounting to approximately PhP 799m.

Notwithstanding the steps that NGCP has taken, detailed above, there is no certainty at the time of writing as regards NGCP's future regulated revenue entitlements, including as regards any retrospective actions that the ERC may take to recalculate NGCP's allowed revenues for the charging years from 2016 onwards.

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<sup>212</sup> Energy Regulatory Commission. (2020). *In the Matter of the Application for the Approval of the Interim Maximum Annual Revenue for Calendar Year 2020, with Prayer for the Urgent Issuance of Provisional Authority*. ERC Case No. 2019-086 RC. <http://www.erc.gov.ph/Files/Render/issuance/30293>

<sup>213</sup> Energy Regulatory Commission. (2020). *In the Matter of the Application for the Approval of the Interim Maximum Annual Revenue for Calendar Year 2020, with Prayer for the Urgent Issuance of Provisional Authority*. ERC Case No. 2019-086 RC. <http://www.erc.gov.ph/Files/Render/issuance/30293>

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